
THOMSON
How information is changing the world
Thomson Annual Report 2000

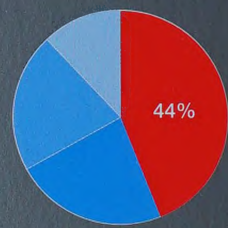
THOMSON™

Thomson at a Glance, 2000

Global Market Groups Providing e-Information and Solutions	Percentage of Revenues

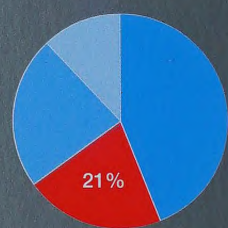
Legal & Regulatory

Information and software-based solutions for legal, tax, accounting, intellectual property, compliance and business professionals.



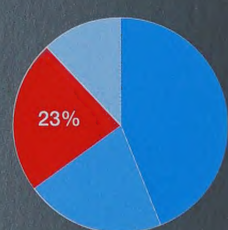
Financial

Information and integrated work solutions for financial professionals.



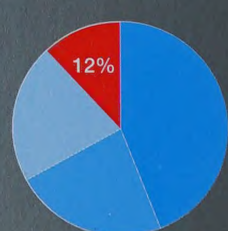
Learning

Learning products, services and solutions for individuals, learning institutions and businesses.



Scientific & Healthcare

Information and services for researchers and other professionals in the healthcare, academic, scientific and government marketplaces.



Performance

(continuing operations, excluding disposals, in millions of US dollars)

Leading Brands and Businesses

	2000	1999	% Change
Revenues	$ 2,619	$ 2,347	+ 12
EBITDA	$ 775	$ 709	+ 9
Operating profit	$ 647	$ 581	+ 11

Australian Tax Practice
Brooker's
Carswell
Center for Professional Development
Checkpoint
Compu-Mark
Creative Solutions
Dialog
Editorial Aranzadi
ELLIS Publications
Fakta Info Direkt
Fast-Tax Trust Services
Forlaget Thomson
GEE Publishing
IOB
La Ley
LawBook Co.
Practitioners Publishing Company
RIA
Sweet & Maxwell Group
Thomson & Thomson
Transactive
West Group
Westlaw

	2000	1999	% Change
Revenues	$ 1,260	$ 960	+ 31
EBITDA	$ 348	$ 289	+ 20
Operating profit	$ 230	$ 194	+ 19

AutEx
Baseline
BETA Systems
Datastream
Disclosure
First Call
I/B/E/S
IFR
ILX Systems
Investext
PORTIA
Securities Data
Thomson Financial/Cars
Vestek
Wiesenberger
Worldscope

	2000	1999	% Change
Revenues	$ 1,389	$ 989	+ 40
EBITDA	$ 358	$ 248	+ 44
Operating profit	$ 233	$ 149	+ 56

Course Technology
Delmar
ECAFSA
Editora Pioneira
Gale Group
Galton Technologies
Heinle & Heinle
Nelson
Paraninfo
Peterson's
Prometric
South-Western
Thomson Learning
Wadsworth Group
Wave Technologies

	2000	1999	% Change
Revenues	$ 697	$ 652	+ 7
EBITDA	$ 172	$ 139	+ 24
Operating profit	$ 146	$ 112	+ 30

American Health Consultants
CenterWatch
Derwent Information
Derwent World Patent Index
Derwent GENESEQ
Institute for Scientific Information (ISI)
ISI ResearchSoft
Medical Economics
MEDSTAT
Micromedex
Physicians' Desk Reference (PDR)
Physicians World
Web of Science

The Thomson business model of

depth of content
+ breadth of solutions
+ technology & applications
+ strategic marketing

---

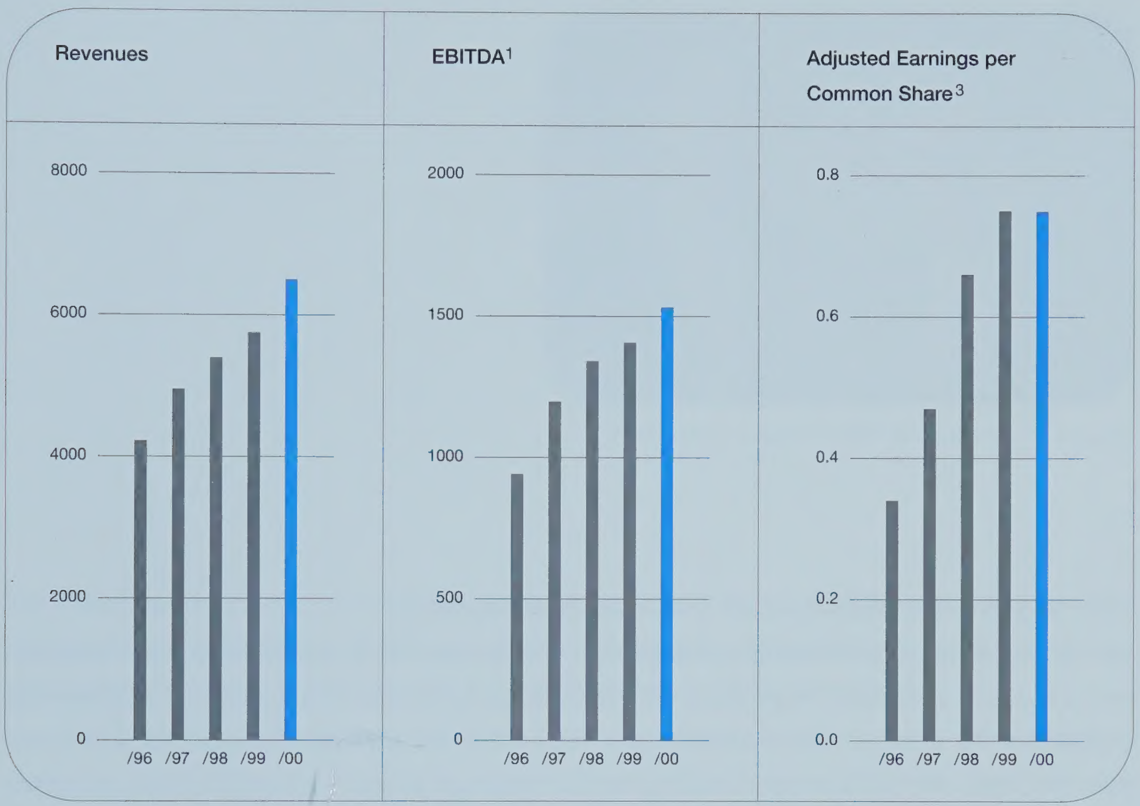
e-information & solutions

is helping to improve the productivity of our business and professional customers.

On the cover: ANNA KÅGEDAL, a librarian at the Karolinska Institutet in Stockholm, Sweden. The Thomson *Web of Science* is a key tool she uses to help more than 5,000 students and medical researchers search the primary literature. See pages 12–13.

Financial Highlights

(continuing operations; millions of US dollars except per common share amounts)



	2000	1999	% Change
Revenues	6,514	5,752	+ 13
EBITDA[1]	1,534	1,407	+ 9
Operating profit[2]	1,118	1,021	+ 10
Adjusted earnings per common share[3]	0.75	0.75	–
Shareholders' equity	7,818	6,996	+ 12

1 Earnings before interest, tax, depreciation, amortization, restructuring charges and Year 2000 costs.

2 Before amortization, restructuring charges and Year 2000 costs.

3 Before restructuring charges, Year 2000 costs, net disposal gains and, in 2000, the tax benefit resulting from the sale of Canadian newspapers.

KENNETH R. THOMSON, left, with RICHARD J. HARRINGTON

2000 was an extraordinary year for The Thomson Corporation.

We made a series of strategic acquisitions and divestitures that completed our transformation into a focused provider of high-value information and solutions to business and professional customers. As a result, our position in key markets of the information economy has never been stronger. We are well positioned to be the foremost global e-information and solutions company – the best at providing content, applications and electronic delivery platforms that help our customers make better decisions, faster.

Our decision to sell the newspaper business, which was announced in February 2000, was well timed. Not only did we obtain excellent value for our high-quality properties, but we also were able to use the proceeds to make acquisitions that further implement our strategy.

In 2000 we announced 40 acquisitions totaling $4.9 billion, led by:

- Primark and Carson Group, enhancing the solutions offerings of our Financial business;
- Prometric and Wave Technologies, strengthening our Learning business in the corporate training and certification markets;
- Harcourt's higher education and corporate training businesses, which will add significantly to our Learning portfolio upon completion of the acqusition in 2001;
- IOB and La Ley, extending our Legal & Regulatory business into the growing Latin American market; and
- Dialog, adding complementary information and aggregation capabilities to provide all our customers with more complete solutions.

Each acquisition strengthens our customer offerings and helps us achieve scale in our core markets. It is this scale that allows us to share core assets and capabilities across businesses, and provide complete solutions that help our customers be more productive.

We completed this transformation while producing strong operating results. Revenues from continuing operations, excluding disposals, increased 20% to nearly $6 billion, and operating profit grew 19% to $1.1 billion. Adjusted earnings from continuing operations were $468 million, in line with last year as core growth was offset by dilutions from acquisitions and dispositions. The underlying core growth rate for revenues – fueled largely by investments in technology and Internet-based products and services – was 8% in constant currencies. This growth was driven by increased demand for electronic products, which accounted for 53% of revenues, and by our increasingly global operations, with 18% of revenues generated from customers outside North America.

Integrating Acquisitions

Thomson has a successful record of integrating acquisitions, and we will draw on this experience as we meld our newly acquired businesses with ongoing operations to create higher value for customers and shareholders. Integration will be a major focus in 2001, and we will also continue to pursue alliances, partnerships and acquisitions that can further extend our relationship with customers as their strategic partner.

DAVID K.R. THOMSON, left, director of The Thomson Corporation, will become chairman upon the retirement of Kenneth R. Thomson in 2002, and W. GEOFFREY BEATTIE, deputy chairman.

Developing Electronic Solutions

By 2005, we expect 80% of our revenues to come from products that are delivered electronically. We are migrating content that is truly “need to know” to electronic platforms. Technology makes it possible for us to add significant value to that content through applications, tools and platforms that provide context, ease of use and seamless integration into our customers’ daily workflow.

Continuing Global Expansion

Our revenue base continues to broaden geographically – our 36,000 people now work in more than 100 countries. This expansion will be a source of future prosperity, not only because of the attractive dynamics of many growth markets, but also because many of our customers are becoming increasingly global in their operations and aspirations. We will continue to rapidly expand our presence in these markets to meet the needs of our global customers.

As much as 2000 was a year of transformation, we expect 2001 to be a year of implementation, producing strong returns for our people, our customers and our shareholders.

KENNETH R. THOMSON
Chairman

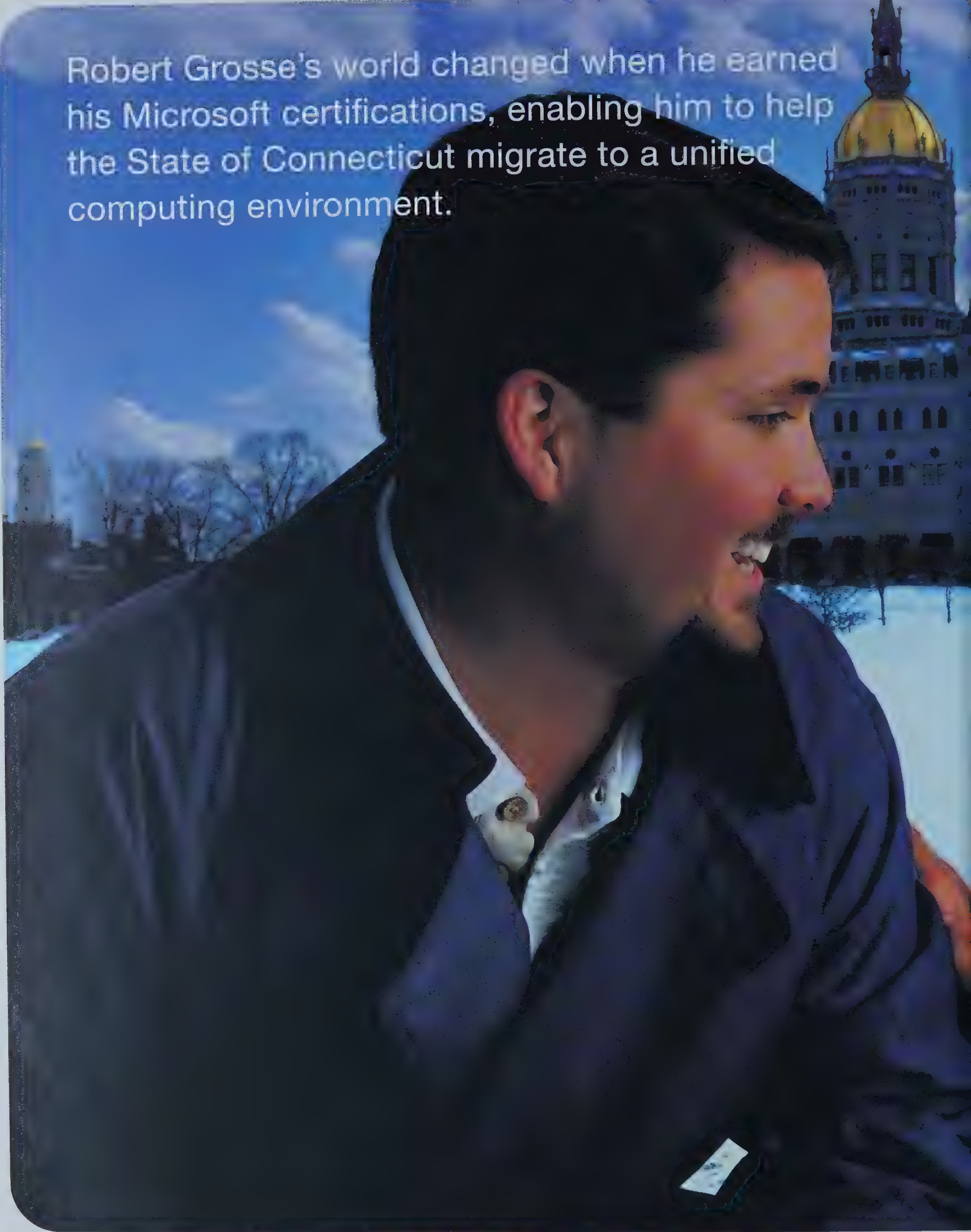
RICHARD J. HARRINGTON
President and Chief Executive Officer

At Thomson, we believe information is changing the world. Powerful information. Delivered electronically. Online whenever and wherever you need it. Through customized applications and Web services. Driven by your needs. Enhancing your knowledge. Changing your world.

Jim Birle's world changed when expanded data about shareholder ownership trends helped him better target institutional investors for his clients.

JIM BIRLE, right, Merrill Lynch managing director and head of equity capital markets for the Americas, with SURESH KAVAN, president and chief executive officer, Thomson Financial Broker/Fund Management, in front of the New York Stock Exchange on Wall Street.

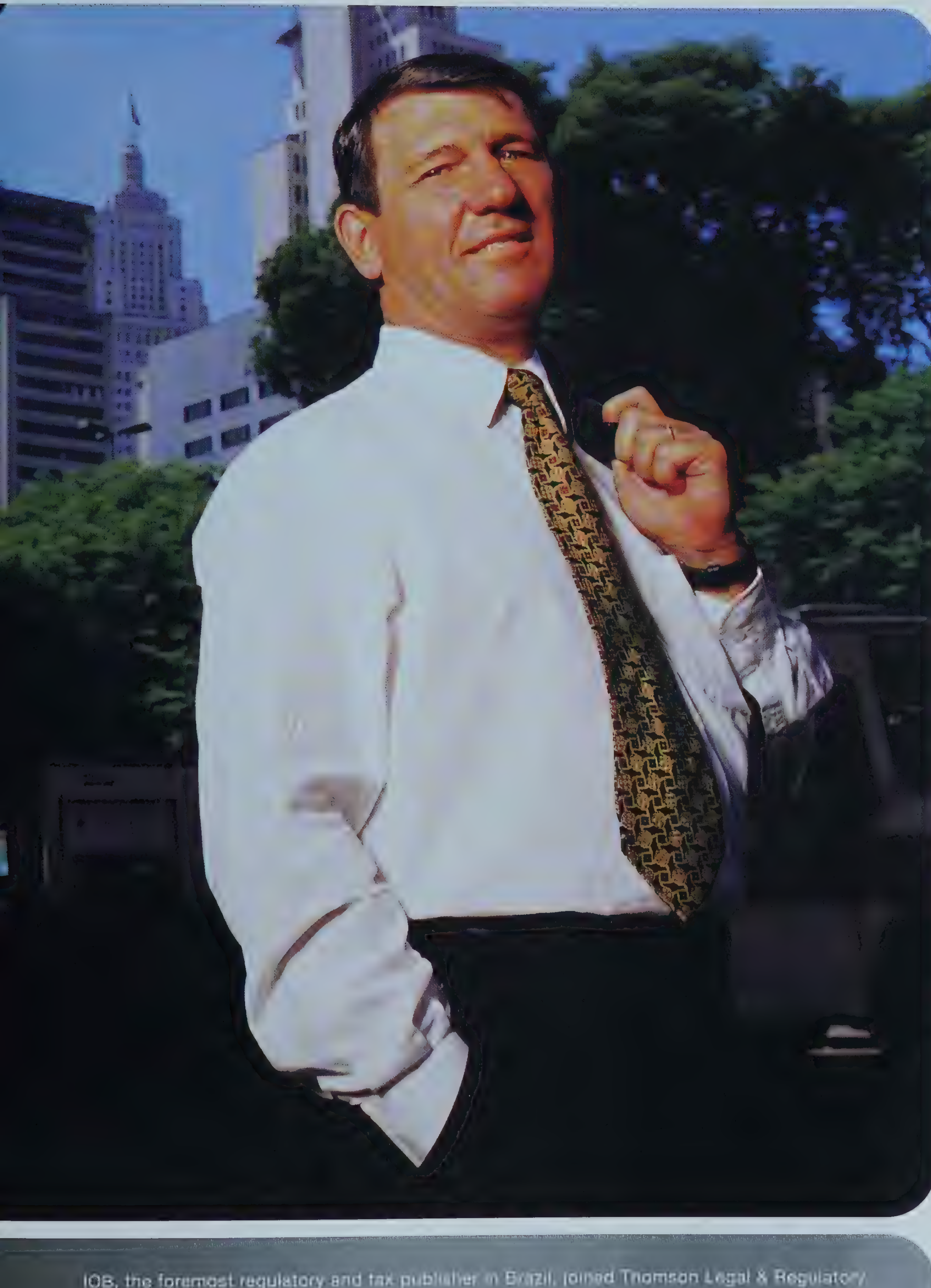
The full breadth of Thomson Financial offerings equips Merrill Lynch to help its clients achieve their business objectives. Jim Birle helps match institutional investors with prospective clients using information from a suite of financial tools such as AutEx, SDC Platinum, First Call and Datastream at www.thomsonfinancial.com



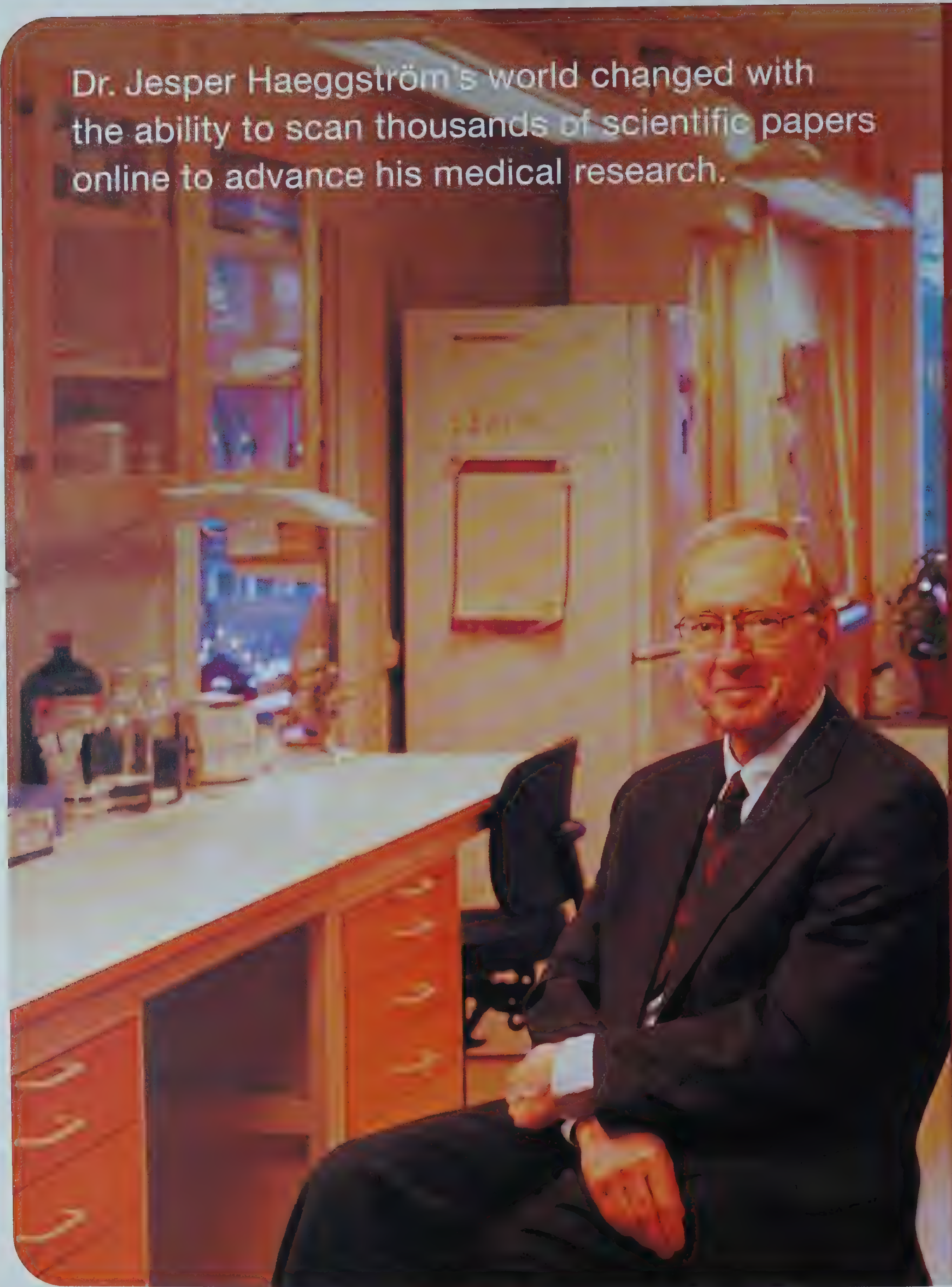
ROBERT GROSSE, a Microsoft Certified Systems Engineer with Unisys, left, with ERIC LINDQUIST, an executive with the Connecticut Department of Information Technology, at the State Capitol building in Hartford. Unisys is helping the state update its desktop computing technology for 52,000 state employees, improving service in departments such as Motor Vehicles, Public Health and Criminal Justice.

Edgard de Borba Glasser's world changed when he helped a customer turn a potential costly tax bill into an opportunity for growth.

Accountant EDGARD DE BORBA GLASSER, right, of Conta-Bill Contabilidade e Assessoria Fiscal in São Paulo, Brazil, with IOB colleagues, SÔNIA REGINA IZZÓ, lawyer and consultant, and ANTONIO TEIXEIRA BACALHAU, supervisor. With IOB services, Glasser helped a refrigeration company, Power Clima Comércio de Climatizadores, target the right depreciation of its equipment.



IOB, the foremost regulatory and tax publisher in Brazil, joined Thomson Legal & Regulatory in July 2000. IOB subscribers can consult in-house tax and regulatory experts in 19 IOB offices across Brazil, and access products and services online. With more than 1 million attorneys and accountants in Latin America, IOB serves as a cornerstone for growth through www.iob.com.br

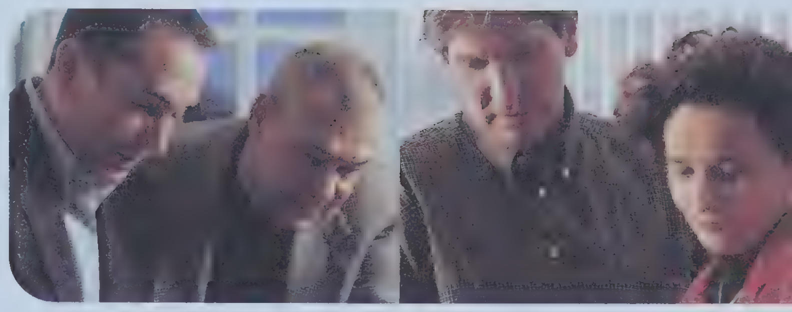


DR. JESPER HAEGGSTRÖM, right, with DR. BENGT SAMUELSSON at the Karolinska Institutet in Stockholm, Sweden. Their discoveries about hormone-like substances called leukotrienes have advanced the treatment of asthma and other inflammatory conditions. Dr. Samuelsson was a co-winner of the 1982 Nobel Prize in Physiology or Medicine for his work.

Our electronic revenues increased to $3.1 billion in 2000 and our Internet-based revenues doubled to about $800 million.

Management's Discussion and Analysis

(unless otherwise stated, all amounts are in US dollars)



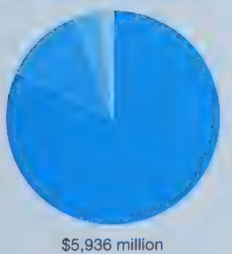
ROBERT DALEO, CFO, left, with DAVID SHAFFER, COO; right, DAVID HULLAND, senior vice president finance, with LINDA WALKER, controller.

The Business of Thomson

The Thomson Corporation is a global e-information and solutions company, helping business and professional customers address their information needs and make better decisions faster. The Company comprises four global market groups:

- **Legal & Regulatory:** Information and software-based solutions for legal, tax, accounting, intellectual property, compliance and business professionals.
- **Financial:** Information and integrated work solutions for financial professionals.
- **Learning:** Learning products, services and solutions for individuals, learning institutions and businesses.
- **Scientific & Healthcare:** Information and services for researchers and other professionals in the healthcare, academic, scientific and government marketplaces.

Businesses in each market group focus on providing workflow solutions and, increasingly, on enterprise-wide applications that address the must-have information needs of customers. The strategy unifying all Thomson businesses is the combining of content with software applications, which add value to that content, and a delivery platform for fast, easy access.



2000 Revenues by Geographic Segment

(customer destination)

- North America
- Europe
- Asia-Pacific
- Latin America and other

Three major trends are shaping the markets in which Thomson competes:

- Technology: In 2000, companies of all sizes continued to embrace the Internet as an internal communication and productivity tool, as a new sales channel and as a platform for exchanges and purchasing between suppliers and customers. *Thomson is well advanced in harnessing the Internet, which accounted for 13% of revenues in 2000.*
- Globalization: As companies strive to be recognized as global, they increasingly seek to expand operations and transactions beyond their domestic markets. Additionally, these companies are attracting other global companies as customers. *Through core growth and recent acquisitions, Thomson now is present in more than 100 countries.*
- Consolidation: Far-reaching mergers continued in some of the key markets that Thomson serves, such as investment banking, brokerage and legal and accounting. Consolidation is also evident in the academic marketplace, as universities expand their reach through consortia and partnerships with industry and other universities. *As customers expand their global reach and breadth of services, Thomson is prepared to address their increasing needs for enterprise-wide solutions.*

The competitive landscape is also changing. With content and technology increasingly intertwined, the competitive field has widened as companies traditionally considered to be technology players adapt their offerings to fulfill information needs. In addition, new competitors are entering the market. Thomson now competes with large, global information companies, as well as with smaller entities in each market segment, and specialist niche players. Through the added value and comprehensiveness of its products, and substantial technology investments, Thomson is well prepared for ever-increasing competition across all its markets.

Several key acquisitions were completed in 2000 that help Thomson bring higher value to customers. In addition, in October the Company announced its plan to acquire select businesses of Harcourt General, Inc. (Harcourt) from Reed Elsevier plc (Reed) once Reed has completed its acquisition of Harcourt. The Harcourt assets will expand the Learning group's portfolio and enhance its ability to provide electronic end-to-end learning solutions to customers worldwide. Thomson expects to complete the acquisition of Harcourt in 2001, following regulatory approval.

Results of Operations

On February 15, 2000, Thomson announced its intention to sell Thomson Newspapers (TN). The results of TN for the current and prior years are reflected as discontinued operations in the consolidated statement of earnings and retained earnings (page 39). The following discussion excludes the results of discontinued operations.

Revenues increased in 2000 by 13% to $6,514 million. Revenues from ongoing businesses, which exclude businesses sold or held for sale, increased by 20% to $5,936 million supported by key strategic acquisitions made in 2000. Excluding the contribution from acquisitions, revenues from core operations increased 7%, or 8% in constant currencies.

North American revenues, prior to the elimination of Intergroup revenues, increased 12% to $5,644 million, and accounted for 86% of the total. Revenues from outside North America increased 32% to $911 million, and accounted for 14% of the total.

EBITDA increased 9% to $1,534 million, reflecting a margin of 23.5% on revenues, down from 24.5% in 1999. EBITDA from ongoing businesses increased 17% to $1,512 million, reflecting a margin of 25.5%, down from 26.1% in 1999. EBITDA margins from core businesses improved in 2000, but this improvement was more than offset by lower initial margins from companies acquired in the current year, additional investments in technology and increased corporate expenses relating to stock appreciation rights.

Depreciation increased 8% to $416 million as a result of acquisitions and increased capital expenditures, particularly in technology, to keep the businesses competitive and to provide for expansion.

Operating profit before amortization, restructuring charges and Year 2000 costs was $1,118 million, 10% higher than in 1999. Operating profit from ongoing businesses increased 19%, with 10% coming from core operations and the remainder coming from acquisitions. North American operating profit, before subtracting corporate and other costs, increased 13% to $1,131 million, and accounted for 90% of the total. Operating profit from outside North America increased $3 million to $128 million, and accounted for 10% of the total.

Amortization increased from $258 million to $327 million as a result of acquisitions.

In 2000, the Company undertook restructuring activities which represented completion of prior year plans and initiation of new plans within the framework of the Company's original strategic initiatives to improve operational and administrative efficiencies. In 2000, charges of $37 million were incurred, principally within the Financial and Legal & Regulatory market groups and relate to business realignments. The shift to a vertical market structure will enable the Financial group to be more aggressive in its Internet-based developments of new products and to create infrastructure and appropriate technology platforms to increase overall efficiency. In the Legal & Regulatory group, significant efforts were undertaken at RIA to improve operational efficiency and to eliminate nonstrategic and unprofitable products. Completion of these restructuring efforts is expected in the early part of 2001.

Net gains on disposals of businesses and investments of $38 million relate principally to the sale of certain businesses within the Financial, Learning and Scientific & Healthcare market groups as well as certain corporate-managed investments.

Net interest expense and other financing costs of $204 million were $18 million higher than in 1999. The increase reflected a higher level of average borrowings in 2000 to finance acquisitions, offset in part by the proceeds received from the sales of newspaper interests in the second half of the year.

The income tax benefit of $15 million in 2000 reflects the recognition of $105 million of tax benefits principally associated with the effective disposal of *The Globe and Mail* in January 2001. Without this tax benefit, income taxes as a percentage of earnings before income taxes and preference dividends were 15.4%. The effective tax rate differs from the Canadian corporate tax rate of approximately 44% due principally to the effect of lower tax rates in other countries where Thomson has operating and finance subsidiaries, and to the recognition of tax losses.

An analysis of comparative earnings and earnings per common share from continuing operations is as follows:

	Earnings		Earnings per common share	
(millions of US dollars except per common share amounts)	2000	1999	2000	1999
Earnings and earnings per common share from continuing operations	571	409	$ 0.92	$ 0.66
Add back (deduct):				
Restructuring charges, net gains on disposals of businesses and investments, and Year 2000 costs, net of tax	2	52	–	0.09
One-time tax benefits	(105)	–	(0.17)	–
Adjusted earnings and earnings per common share from continuing operations	468	461	$ 0.75	$ 0.75

While earnings and earnings per common share were almost 40% ahead of 1999, this was due largely to the one-time tax benefits in 2000 of $105 million principally associated with the sale of *The Globe and Mail* in January 2001.

After removing the effect of the tax benefits and other one-time items, adjusted earnings and earnings per common share from continuing operations in 2000 were relatively unchanged from 1999, as double-digit core growth was offset by dilution from acquisitions and dispositions as well as increased expense associated with stock appreciation rights.

Net capital expenditures were $585 million, 24% higher than in 1999. Over 70% of the net expenditures related to computer hardware and internal-use software, reflecting the continued investment required to expand operations and support the production and delivery of increasingly sophisticated electronic products, services and solutions.

Dividends declared on common shares in 2000 were $427 million, up 5% from 1999, of which $156 million was reinvested in common shares through the dividend reinvestment plan, resulting in common dividend cash payments of $271 million. The dividend paid on December 15, 2000, was increased 2.9% to $0.175 per common share.

Market Group Operating Reports

	Revenues		EBITDA[1]		Operating profit[2]	
	2000	1999	2000	1999	2000	1999
Legal & Regulatory	2,619	2,347	775	709	647	581
Financial	1,260	960	348	289	230	194
Learning	1,389	989	358	248	233	149
Scientific & Healthcare	697	652	172	139	146	112
Intergroup	(29)	–	–	–	–	–
Corporate and other	–	–	(141)	(95)	(141)	(95)
Ongoing businesses	5,936	4,948	1,512	1,290	1,115	941
Disposals[3]	578	804	22	117	3	80
	6,514	5,752	1,534	1,407	1,118	1,021

1 Earnings before interest, tax, depreciation, amortization, restructuring charges and Year 2000 costs.

2 Before amortization, restructuring charges and Year 2000 costs.

3 Disposals include the results of businesses sold or held for sale.

Typically, a much greater portion of Thomson operating profit arises in the second half of the year, and first half results are not indicative of the outcome for the entire year. Customer buying patterns are concentrated in the second half of the year, particularly in the learning and regulatory markets, while costs are spread more evenly throughout the year. As a result, operating margins increase as the year proceeds. For these reasons, the performance of the business overall should be judged based on the whole year rather than by quarter. Unaudited quarterly information is provided on page 66.

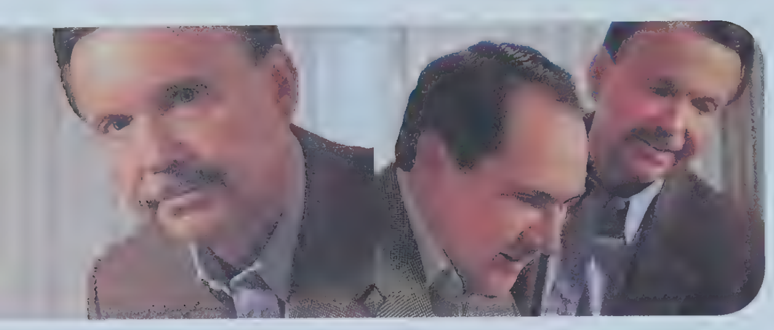
Discontinued Operations

In February 2000, Thomson announced its intention to sell Thomson Newspapers (TN). The primary activities of TN were the publishing of daily and non-daily newspapers, and other advertising and specialty publications in the US and Canada. In addition, through a joint venture partnership, TN has a 50% interest in Augusta Newsprint Company (ANC), a newsprint mill in Augusta, Georgia. During 2000, the sales of 51 of TN's 54 publications were completed. In February 2001, Thomson sold an additional publication in Canada. The completion of the disposition of the remaining assets, including the interest in ANC, is expected in 2001.

The following table summarizes revenues, EBITDA, and operating profit for TN. The 2000 amounts reflect a partial year of results for the discontinued operations.

	Revenues		EBITDA[1]		Operating profit[1]	
(millions of US dollars)	2000	1999	2000	1999	2000	1999
Discontinued operations	592	817	117	219	84	177

1 Before amortization and Year 2000 compliance costs.



BRIAN HALL, president & CEO, Legal & Regulatory, left, and right, with DENNIS BECKINGHAM, CFO.

Legal & Regulatory

Overview

With operations based in 26 countries throughout Asia-Pacific, Europe, Latin America and North America, the Legal & Regulatory group is a leading provider of e-information and solutions to legal, tax, accounting, intellectual property, compliance and business professionals around the world.

In 2000, the Legal & Regulatory group focused on global expansion of its online brand and delivery platform via the launch of Westlaw UK and the release of an international version of Westlaw. The group also concentrated on developing Web-based solutions to streamline customers' workflow processes, and aggressively pursued acquisition and business development opportunities in key markets such as Europe and Latin America. During 2000, the group established a leading market share in Latin America through the acquisition of the regulatory and tax publisher IOB in Brazil, and the legal publisher La Ley in Argentina.

Financial Results

Revenues from ongoing businesses increased 12% to $2,619 million. In constant currencies, core businesses grew at 6%, with the remaining growth coming from a series of strategic and tactical acquisitions. Nearly 85% of new products launched in 2000 were electronic and total Internet revenues grew 72% to $196 million.

$2,619 million

Legal & Regulatory

(revenues by segment)

- North American Legal
- North American Tax & Accounting
- European Legal & Regulatory
- Dialog
- Asia-Pacific Legal & Regulatory
- Latin American Legal & Regulatory

Operating income from ongoing businesses grew 11% to $647 million as a result of higher Westlaw revenues and gains in operational efficiency, particularly at RIA and Carswell. These improvements were partially offset by lower initial margins at acquired companies and continued investment in the development of the global Westlaw platform, which serves as the foundation for online delivery of value-added content.

EBITDA from ongoing businesses of $775 million represented a margin of 29.6%. Capital expenditures for 2000 increased 10% to $180 million, reflecting the impact of newly acquired businesses and critical investment in product development, e-commerce technologies and infrastructure for online offerings. The planned 2001 launch of the business system initiative – the SAP R/3 platform at West Group – indicates the group's commitment to leverageable business technologies.

In 2000, the investment strategy of the Legal & Regulatory group focused on worldwide growth initiatives and a series of transformational investments in Web-based products and work solutions. In addition, businesses were acquired in each of the group's four regional markets: Asia-Pacific, Europe, Latin America and North America.

Market Factors and Trends

The worldwide legal and regulatory sector continues to provide opportunities for expansion with a steady annual market growth of 4% to 5%. North America is the largest region of this market, followed by Europe. Two broad trends are shaping the worldwide market.

First, the trend toward the adoption of the Internet as a delivery platform and content source continues to affect all information providers serving professional markets. New technologies and increasing bandwidth are fueling demand for e-commerce solutions and information. The Internet continues to provide opportunities for new competitors, although growth of these companies has been slowed by capital and investment market downturns.

The second trend involves both the consolidation of professional practices across national borders and the convergence, outside North America, of law and accounting firms. These developments have established a global market characterized by multidisciplinary professional service firms that frequently offer a complement of legal, tax, accounting and consulting services. These new firms demand integrated content that crosses borders and disciplines and is augmented by current news and business information.

These trends are quickly changing the way legal and regulatory professionals serve their customers. In response, the Legal & Regulatory group remains focused on providing solutions that can be integrated into customers' workflow processes and that offer reliable anytime, anywhere access to an unmatched breadth of interlinked content and analytical tools.

Risks

The availability of potential alliance partners and acquisition candidates is a consideration in the group's plans for serving the growing global market with consolidated and linked content offerings. In addition, the deployment of broadband technology in core markets will be a factor in the delivery of services and content via the Internet.

To address these challenges, the Legal & Regulatory group is working to create a global network of linked Internet-accessed services, which underscores the importance of expanded content portfolios, acquisitions and alliance partners. The group is pursuing key acquisitions, enhancing relationships with content partners, expanding critical business alliances and adopting new technologies that will broaden product offerings. The group is also closely monitoring the deployment of broadband technology in critical markets.

Segmented Results

North American Legal

In the United States, revenues from ongoing businesses of West Group increased in 2000, as online revenues increased 14% over the prior year while revenues from print products remained relatively consistent with the prior year. The Westlaw service maintained its preeminent market position through enhancement of content, added functionality and successful penetration into small and mid-sized law firms. The Internet is expected to become the primary delivery mechanism for Westlaw in the coming year. New delivery platforms were launched in 2000, including the Westlaw Wireless service for handheld devices, the first of its kind in the market. Development continues at West Group on a new line of desktop practice solutions and e-filing capability for the law firm market. In addition, West Group continued to build on the success of LawOffice.com through its ongoing portal development and alliances.

Revenues from ongoing businesses in Canada improved as Carswell experienced a jump in renewal business and benefited from a series of successful new sales programs. Margins continued to show significant improvement after efforts to increase efficiency. The launch of Westlaw eCarswell in Canada, scheduled for early 2001, will continue the migration of the Westlaw platform to important markets outside the US.

The Thomson & Thomson trademark research business reported solid growth for the year, as North American trademark filings were strong and operational efficiencies were gained in production and administration. Furthermore, the loading of Thomson & Thomson databases directly onto the Westlaw platform is expected to provide additional revenue growth in 2001.

North American Tax & Accounting

Thomson Tax & Accounting (TTA) revenues from ongoing businesses were relatively flat compared with 1999 as a result of the continued elimination of marginal products. However, profit margins were favorable compared to the prior year, due to the successful restructuring of RIA, the largest operating business in the group. Fast-Tax Trust Services and Creative Solutions achieved gains in market share through strong core growth and acquisitions, the completion of a tactical acquisition also enhanced market share for Practitioners Publishing Company. In 2000, the investment priority within all TTA business units was the development of Web-based information and solutions, which resulted in electronic products generating 75% of TTA's revenues. Initial results from the 2000–2001 tax season selling cycle, which began in the fourth quarter of 2000, have been robust.

European Legal & Regulatory

European Legal & Regulatory operations experienced a significant increase in revenues from ongoing businesses due to several acquisitions in 2000, including Information for Industry and New Law (United Kingdom), Aktuell Arbetsrätt (Sweden) and the annualized effect of Editorial Aranzadi (Spain), which was acquired in 1999. The most significant product event was the full commercial launch of Westlaw UK in March, which was the first country-specific version of Westlaw released outside the US. The response from large and medium-sized law firms was exceptionally positive and the number of contracts signed during the year exceeded expectations. In addition, sales of Westlaw UK content outside of the United Kingdom were extremely strong, particularly among law firms in the US. The development of other Internet services in Europe progressed well during the year and will provide a platform for expansion in 2001. Results in 2000 also were buoyed by excellent performance at Compu-Mark, which benefited from robust European trademark filing and improved margins from operations in the United Kingdom, Denmark and Sweden.

Asia-Pacific Legal & Regulatory

The Legal & Regulatory businesses in Asia-Pacific developed new content offerings in response to marketplace changes, such as the newly introduced goods and services tax in Australia, and steadily increased revenues from ongoing businesses within all business units. Additionally, planned improvements in margins took hold across the region. The forerunner to a full-fledged Westlaw Australia/New Zealand product was launched late in 2000. The online service, referred to as Westlaw International, provides Asia-Pacific customers the opportunity to augment current print and online access to legal content from their region with a range of legal material from other global Westlaw services, primarily from the US and the United Kingdom.

Latin American Legal & Regulatory

Acquisitions of IOB and La Ley provided the group with a major position in the significant and growing Latin American legal, tax and regulatory markets. Assimilation of the two organizations is proceeding well with key regional executives in place and comprehensive business reviews in process. New product opportunities and the expansion of Web offerings are being evaluated. Each company generated strong financial performance, achieving its financial goals for the period since acquisition.

Dialog

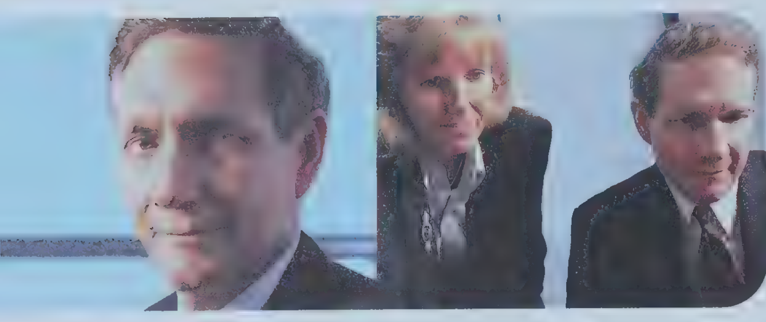
The May 2000 acquisition of Dialog, an online business and research information provider, greatly enhances the global reach and the ability of Thomson businesses to integrate general news and business information with custom offerings. A significant effort is underway to fully leverage Dialog's assets across Thomson. Financial performance for the period since acquisition exceeded management's expectations.

Outlook

To maximize profitable growth in 2001, the Legal & Regulatory group will focus on three areas:

- **Expanding its global online presence.** The group will aggressively grow the newly launched Westlaw UK service, and launch additional country-specific versions of Westlaw in Canada, Australia, New Zealand and on the European continent. On all of its platforms, and indeed across all of Thomson, integration of Dialog content provides long-term opportunities to increase the group's global online presence.
- **Continuing development of Web-based offerings.** The Legal & Regulatory group will continue to build and launch Web-based solutions, such as WestWorks, a Web-based integrated suite of law practice management tools, that enable customers to streamline their workflow and enhance their ability to meet the ever-changing needs of their clients.
- **Leveraging existing assets while pursuing strategic opportunities.** By pursuing acquisitions and alliances in strategically important markets around the world and leveraging the content, technology and brands of the Legal & Regulatory group, the organization will expand its suite of value-added products and services for its customers.

With its strong online brands, innovative Web-based solutions, global assets and a supporting knowledge sharing program, the Legal & Regulatory group is well positioned to build on its market-leading position in 2001.



PATRICK TIERNEY, president & CEO, Financial, left, and right, with SHARON ROWLANDS, COO.

Financial

Overview

The Company's Financial group serves more than 1,300 money management firms, 70,000 individual institutional money managers and 1,000 broker/dealers worldwide. To meet growing demand for financial information services and solutions, four key strategies were implemented in 2000:

- Sharpen customer focus through the clustering of the Financial businesses to provide increased analytical and workflow functionality, and technology and distribution services to the securities industry, including corporate issuers, investment banks, brokerage houses and fund managers. The businesses outside these core markets will be divested. In addition, the Financial group will continue to pursue acquisitions, partnerships and ventures that will enable it to quickly develop and deliver comprehensive workflow solutions.
- Further develop the group's customer focus by enhancing its ability to deliver application service provider (ASP) solutions to its core markets. A new group, TF Solutions, was formed to lead this initiative across the businesses.
- Leverage resources of the Financial group by exploiting shared resources and technologies, enhancing the group's infrastructure and continuing to aggregate best-of-breed content from across the organization. For example, technical operations were centralized around "geocenters" in Boston; New York City; Rockville, Maryland; and London. Data manufacturing operations were consolidated with the research group, and news and research offerings were integrated into more than 25 Financial products.
- Expand activity in Europe, Asia-Pacific and Japan. The acquisition of Primark in September will more than double the Financial group's revenues in Europe.

$1,260 million

Financial

(revenues by segment)

- Broker/Fund Management
- Investment Banking/Capital Markets
- Information Systems
- Corporate

Financial Group Results

In February 2001, the Financial group announced that it intends to sell certain businesses, including publications, business products and services primarily targeting the commercial banking sectors and several niche markets. The disposals are expected to be completed in 2001. References to "ongoing businesses" in this management's discussion and analysis do not include those businesses.

The core Financial businesses once again achieved double-digit growth in revenues, led primarily by businesses benefiting from high transaction volumes, such as BETA Systems and ESG. Robust equity market activity in the US complemented by a healthy European economy contributed to the strong topline growth, but continued consolidation in the commercial and investment banking sectors tempered overall results. Revenues from ongoing businesses increased by 31% to $1,260 million, reflecting 13% growth in core businesses, and 18% growth as a result of acquisitions. Approximately 80% of the Financial group's revenues were delivered electronically. Operating income from ongoing businesses increased 19% over 1999 to $230 million, reflecting 6% growth from core businesses and 13% growth from acquisitions. Solid gains in core businesses were partly offset by investments in new business and infrastructure development. Aggressive investments for long-term growth resulted in a 1.9% decline in operating margins to 18.3% in 2000. Ongoing EBITDA was up 20%, fueled by 7% core and 13% acquisition-related growth. Capital expenditures increased by 30% over 1999 to $199 million.

In September 2000, the Financial group completed two significant acquisitions: Primark Corporation, a leading provider of financial and economic information products and solutions, and The Carson Group, a global provider of investor relations services. The addition of Primark businesses – including Baseline, Datastream, Global Access, I/B/E/S and Vestek – provides content and analytical tools necessary to develop the next generation of information solutions, and significantly increases the group's presence in Europe. BankWatch was sold to Fimalac, a French conglomerate, in exchange for a minority interest in Fitch, its international credit ratings agency. Thomson awaits regulatory approval of its global joint venture with the Depository Trust & Clearing Corporation. Called Omgeo, the new entity will focus on transforming traditional trade processing into streamlined and efficient trade management. In October, the formation of TF Solutions was a key step toward providing customized portal solutions integrating extensive Thomson content and applications to the business-to-business and business-to-consumer communities. TF Solutions is now a key provider to 150 portals across the institutional and retail markets.

Market Factors and Trends

The primary market drivers affecting the Financial group in 2000 were:

- **High trading volumes.** High trading volumes, particularly in the US, contributed to strong revenues in transaction-based businesses, including BETA Systems, ESG and AutEx.
- **Global mergers and acquisitions.** Despite a slowdown in the fourth quarter, global mergers and acquisitions (M&A) volume set a record for the eighth consecutive year. Transactions announced during the year totaled $3.46 trillion, up from $3.3 trillion in 1999.
- **Consolidation of investment banks.** The wave of mergers and acquisitions that has swept the global financial services industry in recent years has also affected investment banking. The combined market share of the top global firms continued to increase in 2000. While consolidation has meant fewer firms, it also presents growth opportunities for Thomson, as these firms expand their global desktop distribution of services and build e-commerce solutions.

- **US initial public offerings.** A weak fourth quarter, in which only 57 companies were brought public, did not prevent the US market from reaching a new record of $73.3 billion in proceeds raised from IPOs in 2000, a 15% increase over the previous year.
- **Global capital markets.** Proceeds raised in the global debt, equity and equity-related markets decreased 8.8% in 2000. In particular, volume was pulled down by a 50% decline in the global high-yield market.

Risks

The Financial group needs to manage three key risks, which are mainly market-driven:

- **Increased competition in the ASP arena.** As use of the Internet continues its rapid growth, financial services firms are increasingly seeking Internet-based solutions that enable them to focus their scarce technology resources on serving customers rather than developing and maintaining Web applications. This has produced a new suite of competitors, ranging from traditional hardware/software firms to content providers to consultants. The group is well positioned to take a leadership role in this market through its newly formed TF Solutions group and its wide range of best-of-breed content.
- **A slowdown in the US economy.** The economic slowdown which emerged in the US in the fourth quarter could have a negative effect on business segments driven by trading volumes, IPO and M&A activity, and on advertising-based businesses. The group's strategy of moving away from advertising-based operations will provide some insulation from this effect. An additional buffer will come from the increasing contribution of the group's operations in other countries.
- **Continued industry consolidation.** Consolidation of the financial services industry, particularly investment banks, combined with a slowdown of new issuances could negatively affect the performance of Thomson businesses serving these segments.

Segmented Results

Broker/Fund Management

Bolstered by robust trading activity through most of the year, the Broker/Fund Management group experienced double-digit growth in revenues in 2000. Strong performance in transaction-based businesses, such as AutEx and ESG, were somewhat offset by weakness in the software sector, particularly new sales of the PORTIA portfolio management system. The Broker/Fund Management group was one of the major beneficiaries of the Primark acquisition, adding such respected product brands as Baseline, Datastream, I/B/E/S, PIMS and Vestek to the group. These businesses are now being aggressively integrated into established Thomson units, including First Call, to produce the next generation of work solutions connecting both the buy- and sell-sides of the global securities industry.

Investment Banking/Capital Markets

Led by respected brands such as International Financing Review, Securities Data and Venture Economics, the Investment Banking/Capital Markets group steadily increased revenues. Record levels of mergers, acquisitions and IPOs in the US contributed to these results, which were sizably offset by declines in global capital markets and municipal bond issuance activity. As part of the Primark integration, products including Disclosure, Global Access and PiranhaWeb were added to the offerings from the group. Key initiatives during the year included the development of customizable work solutions and Internet versions of several popular print titles.

Information Systems

Strong double-digit growth in revenues within the Information Systems group was driven by the overall high volume of trading in the US combined with an aggressive sales and marketing effort. The BETA Systems back-office solution processed a record level of trades for clients during 2000. ILX Systems strengthened its position as the leading equity market data vendor in North America by adding more than 25,000 workstations to its installed base, bringing the total to more than 160,000. The integration of GlobalTOPIC and A-T Financial, former Primark businesses, into the group will expand the global reach of real-time operations, particularly in Europe.

Corporate

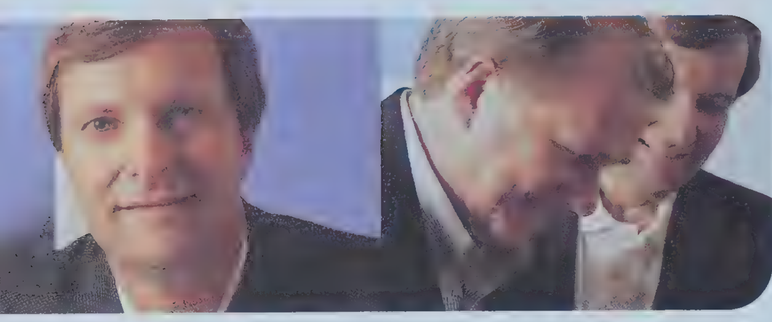
The Corporate group, which includes investor relations and corporate intelligence services, achieved strong revenue growth. Integration of The Carson Group positions Thomson to become the world's leading investor relations authority, providing comprehensive consulting and solutions to top global companies. Also in 2000, Intelligence Data continued to drive growth through the success of its Intelliscope market intelligence service, which counts nearly half of the Fortune 500 among its corporate clients.

International/Regional

Growth of the Financial group outside North America continued to outpace overall growth in 2000. This was attributable to the general health of the European and Asian markets during the period. Despite the general volatility of markets in Latin America, the region's overall potential remains high and the Financial group continued to push aggressively into its major financial centers during the period. Businesses gaining share in new markets during 2000 included Securities Data and IFR in Asia, AutEx in Europe and the Investor Relations business in Japan and Latin America. The integration of Carson and the Primark businesses will greatly enhance the group's global presence in 2001, especially in Europe.

Outlook

Despite an anticipated slowdown in the expansion of the global economy, the Financial group is well positioned in 2001, which began with a focus on the rapid development and launch of new initiatives made possible by strategies implemented in 2000. These range from the launch of new businesses and joint ventures, to the introduction of new solutions-oriented products and services. The group expects to strengthen relationships with top clients through the formalization of global account service groups. In addition, it will continue to make inroads into international markets with new and existing solutions.



ROBERT CHRISTIE, president & CEO, Learning, left, and right, with RONALD DUNN, president & CEO, Academic Group.

Learning

Overview

The Learning group is a leading provider of educational content and learning solutions for individuals, educational institutions and corporations. At the end of 2000, the group employed 9,000 people and operated more than 4,100 testing locations in more than 140 countries. Continued success comes from a dedication to four core strategies:

- Focus investment and development on the strongest academic disciplines, adult learning markets and institutional/corporate channels.
- Exploit technology to create and deliver total learning solutions that better meet customer needs by building and extending content across channels in a variety of media.
- Build and fully exploit the power of the Thomson Learning brand.
- Develop global businesses and other high-growth markets for the adult learner.

Strategic acquisitions have accelerated the growth of the Learning group. Several acquisitions this year provided Thomson with a significant and profitable position in the training, testing and assessment markets, accelerating the group's transformation to a learning solutions provider with global operations. These acquisitions included, in March, Prometric, a leading computer-based assessment and testing company; in April, Wave Technologies, a strong niche provider of information technology (IT) training for certification; and in September, K.G. Saur Verlag, a leading German-based reference publisher. These acquisitions strengthen the

group's competitive position in existing markets and expand its international presence. Finally, Gale Group, a leading provider of library reference solutions, joined the Learning group from the Scientific & Healthcare group. The transfer was made in recognition of the complementary nature of Gale's operations as well as the significant strategic fit which exists between Gale and the Academic Group businesses.

Financial Results

Revenues from ongoing businesses increased more than 40% in 2000 to $1,389 million, with approximately 9% coming from core businesses and the remainder of the growth coming from acquisitions. Key factors driving the core revenue increases included above-market growth by the Academic Group, the second largest provider of information products and services for colleges and universities worldwide, and continued success of the Microsoft Office™ training product line from Course Technology, a leading provider of IT training materials.

Electronic and Internet revenues more than doubled in 2000 to about 30% of total revenues.

Those factors, combined with improved operating efficiencies, led to an increase in operating income from ongoing businesses of 56% to $233 million. Core businesses generated approximately 22% of the growth with the remainder coming from acquisitions. Operating margins increased from 15.1% in 1999 to 16.8% in 2000.

EBITDA from ongoing businesses increased to $358 million in 2000. Capital spending increased 46% to $165 million in 2000, reflecting the impact of newly acquired businesses and continued investment.

Market Factors and Trends

Growth of the learning market is driven mainly by expansion of the global knowledge-based economy, where effective use of information is a powerful competitive advantage. In the United States alone, the US Department of Labor estimates 85% of jobs require technical education above the high school level. This is compared with 65% in 1990 and 40% in 1950. Additionally, demand continues to escalate for English language training as English becomes the predominant language of the Internet and of international business.

The overall demand for higher education, career and continuing professional education is growing very rapidly. It is estimated that by 2010, the number of people enrolled in higher education globally will have increased to more than 97 million, with the highest growth in Asia and Latin America. Developing countries are unlikely to be able to create the infrastructure needed to satisfy the demand for post-secondary education and training. Establishing ties with "e-Universities" will be critical in capturing a significant portion of this unmet demand. Likewise, creation of seamless assessment, training, testing, and certification in career education and training serves a rapidly growing percentage of the global workforce.

Employers are increasingly requiring proof of work-related skills in candidates and employees, especially in complex technology-related professions. A recent study of corporate education leaders by the American Society of Training and Development found that a training provider was chosen chiefly for its ability to prove that learning occurred and productivity improved as a result of training.

Risks

Further consolidation in the academic publishing market occurred during the year, but several companies are still vying for leadership in the technology-driven learning market. Several large technology, communication and entertainment providers continue to slowly build education-related Web sites and services. In addition, competition continues to escalate in the lifelong learning market, and traditional distribution channels continue to consolidate.

Successful players must develop and provide learning solutions in a wide variety of media, including print, to serve the market's changing needs, with different segments of the market migrating to technology-based solutions at different rates. The Learning group is taking the following actions to address these potential risks and uncertainties in the academic and lifelong learning marketplace:

- Continuing to recruit and retain high-quality people.
- Staying in close touch with customers to ensure that the group's products and services are responsive to their changing needs as they incorporate new technologies into their workflows.
- Creating a distinct, sustainable competitive advantage in the corporate marketplace through a consultative approach to sales and marketing.
- Identifying key acquisitions and alliances. With new players entering the learning market, the Learning group has sharpened its focus on identifying new market opportunities and anticipating competitive threats.
- Rapidly integrating recent acquisitions, to drive both cost savings and revenue synergies.

Segmented Results

Academic Group

The July 2000 restructuring initiative to merge the operations of Brooks/Cole and Wadsworth, two higher education content providers, contributed to a margin improvement for the Academic Group. The September acquisition of K.G. Saur Verlag helped position Gale Group to expand internationally.

The Learning group moved to the leading edge of e-commerce through www.thomsonlearning.com, creation of online courseware solutions such as the MBA Primer, a preparatory program for students seeking an MBA degree, The Learning Equation for remedial mathematics instruction, and investments in emerging technology solution providers such as WebCT and Brainbench. The group's partnership with WebCT, the leading Web platform developer in the higher education market, gives the group greater participation in the development of e-learning solutions. Brainbench is a leading provider of online certifications, and the partnership gives Thomson a jump-start in the online environment. In both cases, early integration of Thomson content in these leading delivery services provides an opportunity for the Learning group to gain additional market share in the higher education and corporate learning environments.

Double-digit revenue growth from ongoing businesses of the Academic Group was driven by:

- Strategic acquisitions, including K.G. Saur Verlag and Greenhaven Press;
- The successful release of new products, including the expansion of translations and adaptations of domestic product into the international markets;
- Acceleration of publishing schedules for key titles; and
- The highly successful Service Plus retailer program, which was launched in 1998 and has led to substantial reductions in returned products.

Lifelong Learning Group

The acquisitions of Prometric and Wave Technologies created a corporate training and testing business that is a market leader and, with the anticipated addition of select Harcourt assets in 2001, will be even better positioned for growth. In 2000, Prometric enhanced its online test capabilities and delivered over 4 million tests, a 36% increase from 1999. The recent acquisition of ARCO Publishing further strengthens the depth and breadth of the test preparation business in both the academic and professional markets.

Revenues in the Lifelong Learning Group nearly doubled from the prior year, mainly due to the acquisitions of Prometric and Wave Technologies. Exceptional performance of Course Technology computer titles drove strong core revenue growth in the Lifelong Learning companies.

Outlook

The transition to a global knowledge economy is well underway. As academic institutions scramble to adopt e-learning technologies that will make them competitive, the global market for distance learning expands and the global workforce becomes more dependent upon training and certification. The Learning group is well positioned to take advantage of increased scale and the strategic value of its acquisitions to address the growing need for technology-based learning solutions.

Effective coupling of core business components and new partnerships enables the Learning group to provide complete learning solutions that help customers find the right learning solution for their needs, learn or teach and validate that learning has occurred.

In 2001, the Learning group will place increased emphasis on integrating solutions and developing marketing and brand strategies that support its customized offerings.

Assuming the completion of the acquisition of the Harcourt assets in 2001, the Learning group plans to integrate those assets, improving the breadth and depth of content and assessment and testing services. These assets will move the Learning group into a stronger leadership position in the growth market of corporate training products and services.

Left, RON SCHLOSSER, executive vice president, The Thomson Corporation, with LESLIE SINGER, president & CEO, Institute for Scientific Information, and right, with MICHAEL TANSEY, president & CEO, Scientific & Healthcare.

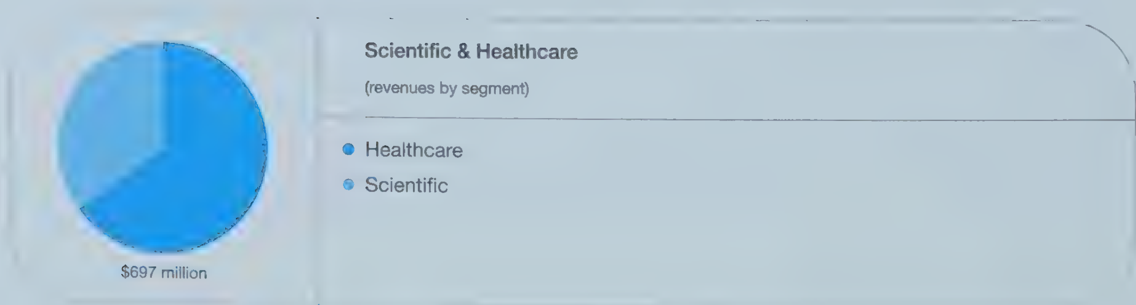
Scientific & Healthcare

Overview

The Scientific & Healthcare group provides essential information and tools that improve the work processes of scientific researchers in academic, corporate and government settings and aid healthcare professionals in a range of specialty and industry segments. The group serves more than 5 million customers in 129 countries.

The strategy for continued growth of the Scientific group focuses on integrating new data and applications to help scientists become more productive in their pursuit of innovation and its commercialization in such key areas as drug research and development and genomics. This strategy builds on the success of the *Web of Science*, the subscription-based Internet portal accessed by 4 million researchers at 1,200 academic, corporate and government institutions.

The plan to drive the continued growth of the Healthcare group includes the significant expansion of products and services for the physician, especially in the areas of continuing medical education and point-of-care information delivered through hospital systems and handheld computing devices.



Financial Results

Revenues from ongoing businesses increased 7% in 2000 to $697 million, with 5% of that growth coming from core businesses and the difference being contributed by acquisitions. Notable growth was recorded for the *Web of Science*, which increased its penetration in major markets throughout the world, and for drug- and clinical-information databases and tools at the Micromedex unit, including such hospital and poison-control products as Drugdex, Poisindex and Emergindex. Approximately 13% of revenues was Internet-based.

Operating income from ongoing businesses rose 30% in 2000 to $146 million, with the majority of that growth being contributed by core businesses. The growth and corresponding margin increase from 17.2% in 1999 to 20.9% were largely attributable to strong performance of the Scientific group and the leveraging of product development, infrastructure and administrative resources. EBITDA grew 24% to $172 million.

Capital spending for the group was $31 million, reflecting a continued commitment to building a technology infrastructure that speeds electronic product development and provides better workflow solutions for customers.

Market Factors and Trends

Five key trends have emerged in the scientific marketplace, which the Scientific group is well equipped to address:

- The Internet has become the preferred delivery medium of all electronic products. Nearly all academic research libraries in the world have robust Internet connections. The group's emphasis continues to be on electronic-based solutions.
- Genomics is playing an increasing role in drug development, accounting for a growing percentage of pharmaceutical R&D spending. Scientific information tools that assist such research are growing at a rapid rate.
- Intranet delivery of comprehensive and integrated information solutions tailored for researchers is becoming critically important to the corporate market. The Scientific group has increased its commitment to meeting this growing demand.
- Knowledge management software that integrates externally acquired content with an institution's internal files will have a profound impact on how researchers access and manage critical information. The group's offerings increasingly adopt an open-platform architecture, making for easier integration of content, regardless of its source.
- Pharmaceutical R&D continues to expand, with a growing emphasis on use of information products and applications that monitor the market and products through development cycles. The group is expanding its electronic solutions for this fast-growing area.

In the healthcare marketplace, four trends suggest a positive outlook for the near future:

- Spending on continuing medical education in the US increased by an estimated 15% in 2000, with even higher growth in select markets outside the US.
- Intranets are becoming the platform of choice within large hospitals for the distribution of clinical and administrative data and applications. Micromedex has a strong position in providing electronic clinical drug information to hospitals and affiliated care facilities.
- Handheld computing devices have emerged as an important platform for the delivery of point-of-care information and tools. The Healthcare group provides paid access to drug databases for use on various handheld platforms and will significantly expand these offerings in 2001.
- Increased emphasis has been placed on improving the efficiency and speed of the clinical trial process. In this area, the pharmaceutical industry has focused on streamlining processes and implementing more efficient methods of recruiting physician investigators and patients. The Healthcare group has a strong emerging position in this segment with CenterWatch, which is an independent repository of key data on clinical trials and allows the industry to better manage and conduct such research.

Risks

In the scientific market, scientists are showing a preference for integrated information and applications across a range of specialized interests, from drug research and development to genomics. These key customers will be attracted to providers that market comprehensive tools and information that help them accelerate their innovations. The Scientific group has focused on providing integrated desktop solutions for scientists and their institutions by expanding products that combine seamlessly with varied data and texts and link to essential applications. The group, with well-established technology and product management infrastructures, intends to keep its product development schedule on track to meet customer needs in this rapidly evolving market.

In the healthcare market, physician adoption of Internet information technologies has lagged other professional sectors, but the promise of using IT to improve care and decrease costs has been a powerful new driver. New market participants have emerged to offer physicians Internet-based solutions for information delivery, drug monitoring and medical transactions. The Healthcare group, which already delivers electronic drug and clinical information to hospitals throughout the US and provides prescription-drug information to mobile computing devices, concentrates on areas where both it and its customers can profitably benefit from Internet distribution. It will use its key information and brands to drive electronic growth and sustain a competitive advantage.

Segmented Results

Scientific

Revenues for ongoing businesses increased in 2000, with growth largely attributable to the *Web of Science* portal for global scientific researchers and its further penetration into the corporate desktop market. The Scientific group realized double-digit revenue growth in online distribution of the *Derwent World Patent Index* and new and existing databases in the genetic-patenting field, such as *Derwent GENESEQ* and *GENESEQ FASTAlert*.

In 2000, electronic revenues represented more than 85% of sales.

Operating income from ongoing businesses increased significantly in 2000. The Scientific group realized improved margins because of the increased revenue contribution of electronic products, with their lower distribution costs. Improvements in patent processing and continued integration of existing operations also contributed to the margin increase.

In 2000, the *Web of Science* introduced a series of product enhancements, including the addition of significant new content and database links. The product, which now covers journal literature back to 1945, contains about 1.1 million links to full-text journal articles, which represents a 54% increase year-over-year.

The Scientific group also introduced *GENESEQ FASTAlert*, a current awareness product that reports on all genetic sequences included in patents within two weeks of their publication by the world's 40 largest patent authorities. This product, which draws from Derwent's larger and archival *GENESEQ* international gene-patent database, has proven of critical importance to the pharmaceutical and biotechnology industries.

The ISI ResearchSoft unit sold more than 100,000 copies of bibliographic software to the academic research community. This product cluster assists researchers in preparing for the publication of their findings and is integrated into the *Web of Science*, providing a workflow solution.

Healthcare

Solid growth in revenues from ongoing businesses in 2000 was driven by increased demand for the drug- and clinical-information databases at Micromedex, the August 2000 acquisition of Physicians World, a leading provider of continuing medical education (CME) for physicians, and higher revenue from the *Physicians' Desk Reference*. Micromedex also benefited from the continued migration of hospital customers from legacy systems to intranet versions of its data products and the growth of its CareNotes patient-education material sold to institutions.

Operating income from ongoing businesses rose significantly in 2000. Operating margins were improved by revenue increases and cost savings from the integration of the Medical Economics and Micromedex businesses.

The acquisition of Physicians World expanded the group's capabilities and market position in the rapidly growing physician market for continuing medical education, combining its existing portfolio of physician education with greatly expanded offerings.

MEDSTAT, which provides decision support systems, market intelligence, benchmark databases and research for managing the purchase, administration and delivery of health services and benefits, completed the first installations of its next-generation technology platform in 2000. By year-end, more than 40% of MEDSTAT's employer, health plan and state government customers were using, or preparing to use, the new product.

The Healthcare group acquired the Center for Clinical Research Practice, which improves clinical research through education, training and ethical review and strengthens the group's offering in the growing market for clinical-trial data.

Internet activities continued to expand across the Healthcare group. CMEWeb, a CME portal, expanded to offer more than 1,300 credit hours in 21 specialties, becoming one of the largest CME catalogs on the Web. Usage of the CenterWatch clinical-trial listing service rose dramatically in 2000, from 180,000 unique visitors in January to 330,000 in December. During 2000, registered users of the PDR.net drug information service nearly doubled to 360,000.

Outlook

The Scientific & Healthcare group is investing for growth by expanding its technology infrastructure, researching and launching new electronic products, integrating applications that improve its customers' workflow processes, and executing acquisitions, such as Physicians World, that capture positions in key high-growth segments.

The Scientific & Healthcare group, a leader in e-information and solutions, will continue to build on its strong brands and market positions to better respond to the evolving needs of its customers.

Financial Position and Cash Flow

Financial Position

At December 31, 2000, total assets of $15,699 million (1999 – $13,806 million) included $188 million (1999 – $1,536 million) related to discontinued operations. At December 31, 2000, total assets employed by continuing operations of $15,511 represents a 26% increase from the December 31, 1999, balance of $12,270. The increase was driven primarily by increases in property and equipment, identifiable intangible assets and goodwill.

Property and equipment increased by $331 million, as a result of both significant acquisition activity during 2000 and continued investment in core businesses. This increase more than offset current year depreciation of $416 million and reductions from disposals of businesses.

The combined balance of identifiable intangible assets and goodwill increased by $2,345 million. This increase arose from acquisition activity, which more than offset current year amortization of $327 million and reductions resulting from disposals of businesses.

Distribution of the total assets employed by continuing operations as of December 31, 2000, across the market groups is as follows:

Legal & Regulatory	6,291	41%
Financial	3,332	21%
Learning	2,851	18%
Scientific & Healthcare	808	5%

The remaining balance consists of corporate assets, which comprise cash, investments, overfunded pension assets, together with goodwill of $1,190 million arising in connection with the requirements of the Canadian Institute of Chartered Accountants (CICA).

Total debt (consisting of short-term indebtedness, the current portion of long-term debt, and long-term debt) as of December 31, 2000, totaled $2,862 million, compared to $2,364 million at December 31, 1999. This increase was primarily due to increased borrowings to finance acquisition activity. Including a liability of $197 million (1999 – $146 million) for the carrying amount of related currency swap instruments, total debt at December 31, 2000, was $3,059 million, compared with $2,510 million at December 31, 1999.

Total net debt (total hedged debt less cash and cash equivalents) was $2,722 million as of December 31, 2000, compared with $2,181 million as of December 31, 1999. Shareholders' equity at December 31, 2000, of $7,818 million exceeded the December 31, 1999, amount of $6,996 million. In both years, shareholders' equity included $442 million of preference share capital redeemable only at the option of the Company. The ratio of net debt to shareholders' equity at December 31, 2000, was 0.35:1, compared to 0.31:1 a year earlier. The ratio increased as a result of the aforementioned borrowing activity to fund acquisitions. At December 31, 2000, $2,976 million or 97% of total hedged debt was denominated in US dollars. After taking into account interest rate swaps, 77% of hedged long-term debt carried fixed rates of interest. Based on floating rate long-term debt of $644 million at December 31, 2000, a 1% change in interest rates would increase or decrease interest expense by approximately $6 million in a full year.

At December 31, 2000, undrawn bank facilities, which have an expiration date in August 2004, amounted to $600 million.

Cash Flow

Cash provided by continuing operations in 2000 amounted to $995 million, down from $1,028 million in 1999. The principal reason for the reduced level of cash from operations was a sharply higher level of working capital at the end of 2000. This was partly due to investments in working capital relating to acquisitions made in 2000 and also to an overpayment of estimated taxes in late 2000 which is subject to refund in 2001.

Investing activities for 2000 resulted in a net use of cash of $1,380 million, compared to a net use of $559 million in 1999. The primary components of this increase were a higher level of acquisitions in 2000 (accounting for $2,487 million additional usage over the 1999 activity) partially offset by $1,868 million received in connection with the disposal of Thomson Newspapers.

Cash provided by financing activities during 2000 was $294 million, compared to a usage of $515 million for 1999. This change resulted from a higher net level of borrowings in 2000 due to acquisitions.

After translation adjustments, the net decrease in cash and cash equivalents from continuing operations for 2000 amounted to $93 million. That amount was offset by $101 million cash inflow from the discontinued operations of Thomson Newspapers. Cash and cash equivalents at December 31, 2000, and December 31, 1999, was $337 million and $329 million, respectively.

Other Matters

The Company enters into hedging arrangements through the use of the forward currency exchange and swaps markets to reduce its exposure to currency and interest rate fluctuations. It does not enter into speculative positions through the use of derivatives or any other financial instruments.

Based on the 2000 results of operations, a one cent change in the US dollar/pound sterling average exchange rate would increase or decrease operating profit by approximately $0.4 million in a full year. A one cent change in the US dollar/Canadian dollar average exchange rate would have a negligible impact on operating profit.

In the ordinary course of business, Thomson regularly guarantees certain obligations of its subsidiaries. Such guarantees generally provide that Thomson will maintain a minimum amount of share capital and retained earnings and that its net debt to equity ratio will not exceed 2.0:1.

In December 2000, the Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 3500, "Earnings per Share," which will become effective for fiscal years beginning on or after January 1, 2001. The new rules require a change in the manner in which the dilutive effect of warrants and options is calculated. Although the new rules will not have an impact on the calculation of net income, they may result in a warrant or option being considered dilutive when it would not have been under the previously existing rules. Consequently, it is possible that Thomson may be required to present a fully diluted earnings per share amount.

In November, 2000, the Emerging Issues Committee (EIC) of the CICA issued EIC-114, "Liability Recognition for Costs Incurred on Purchase Business Combinations." The guidance in that consensus must be applied to all business combinations consummated after December 31, 2000. Under that consensus, costs related to the acquiring company and certain restructuring and integration costs may no longer be considered part of the purchase price allocation. Future business combinations of the Company will be accounted for in accordance with EIC-114.

This discussion and analysis includes forward-looking statements that are based on the Corporation's current expectations and assumptions and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated. Such risks and uncertainties include, among others, general business and economic conditions, competitive actions and changes in laws and regulations including those with respect to tax matters.

Management Report

The management of The Thomson Corporation is responsible for the accompanying consolidated financial statements and other information included in the annual report. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles using the best estimates and judgments of management, where appropriate. Information presented elsewhere in this annual report is consistent with that in the financial statements.

Management is also responsible for a system of internal control which is designed to provided reasonable assurance that assets are safeguarded, liabilities are recognized and that the accounting systems provide timely and accurate financial reports.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities in respect of financial reporting and internal control. The Audit Committee of the Board of Directors meets periodically with management and the Corporation's independent auditors to discuss auditing matters and financial reporting issues. In addition, the Audit Committee reviews the annual consolidated financial statements and annually recommends to the Board of Directors the appointment of the independent auditors.

Richard J. Harrington

RICHARD J. HARRINGTON
President and Chief Executive Officer

ROBERT D. DALEO
Executive Vice President and Chief Financial Officer

March 7, 2001

Auditors' Report

To the shareholders of The Thomson Corporation

We have audited the consolidated balance sheet of The Thomson Corporation (the Corporation) as at December 31, 2000 and 1999 and the consolidated statement of earnings and retained earnings and of cash flow for each of the years in the two year period ended December 31, 2000. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2000 and 1999 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2000 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants, Toronto, Canada

March 7, 2001

Consolidated Statement of Earnings and Retained Earnings

(millions of US dollars except per common share amounts)	Year ended December 31 2000	1999
Revenues	6,514	5,752
Cost of sales, selling, marketing, general and administrative expenses	(4,980)	(4,345)
Earnings before interest, tax, depreciation, amortization, restructuring charges and Year 2000 costs	1,534	1,407
Depreciation (note 6)	(416)	(386)
Operating profit before amortization, restructuring charges and Year 2000 costs	1,118	1,021
Amortization (notes 7 and 8)	(327)	(258)
Restructuring charges (note 16)	(37)	(38)
Year 2000 costs (note 21)	(4)	(91)
Operating profit after amortization, restructuring charges and Year 2000 costs	750	634
Net gains on disposals of businesses and investments	38	52
Net interest expense and other financing costs (note 3)	(204)	(186)
Income taxes (note 4)	15	(63)
Earnings before dividends declared on preference shares	599	437
Dividends declared on preference shares (note 12)	(28)	(28)
Earnings from continuing operations	571	409
Earnings from discontinued operations (note 2)	652	123
Earnings attributable to common shares	1,223	532
Retained earnings at beginning of year	5,225	5,099
Effect of adoption of accounting standard (note 14)	(78)	–
Dividends declared on common shares (note 13)	(427)	(406)
Retained earnings at end of year	5,943	5,225
Earnings per common share from continuing operations	$ 0.92	$ 0.66
Earnings per common share from discontinued operations	$ 1.04	$ 0.20
Earnings per common share (note 5)	$ 1.96	$ 0.86

Consolidated Balance Sheet

(millions of US dollars)	December 31 2000	1999
Assets		
Cash and cash equivalents	337	329
Accounts receivable	1,522	1,243
Inventories	232	232
Prepaid expenses and other current assets	384	249
Current assets of discontinued operations (note 2)	53	147
Current assets	2,528	2,200
Property and equipment (note 6)	1,379	1,048
Identifiable intangible assets (note 7)	4,659	4,403
Goodwill (notes 4 and 8)	6,171	4,082
Other noncurrent assets	827	684
Noncurrent assets of discontinued operations (note 2)	135	1,389
Total assets	15,699	13,806
Liabilities and shareholders' equity		
Liabilities		
Short-term indebtedness	312	21
Accounts payable and accruals	1,626	1,276
Deferred revenue	772	632
Current portion of long-term debt (note 11)	229	434
Current liabilities of discontinued operations (note 2)	26	114
Current liabilities	2,965	2,477
Long-term debt (note 11)	2,321	1,909
Other noncurrent liabilities	1,264	923
Deferred income taxes (note 4)	1,284	1,317
Noncurrent liabilities of discontinued operations (note 2)	47	184
Total liabilities	7,881	6,810
Shareholders' equity		
Share capital (notes 12 and 13)	2,035	1,881
Cumulative translation adjustment (note 18)	(160)	(110)
Retained earnings	5,943	5,225
Total shareholders' equity	7,818	6,996
Total liabilities and shareholders' equity	15,699	13,806

Approved by the Board

K.R. Thomson

KENNETH R. THOMSON
Director

Richard J. Harrington

RICHARD J. HARRINGTON
Director

Consolidated Statement of Cash Flow

(millions of US dollars)	Year ended December 31 2000	1999
Cash provided by (used for):		
Operations		
Earnings from continuing operations	571	409
Add back (deduct) items not involving cash:		
Amortization of development costs	99	93
Depreciation	416	386
Amortization	327	258
Net gains on disposals of businesses and investments	(38)	(52)
Deferred taxes	(71)	(58)
Other, net	22	78
Changes in working capital and other items (note 20)	(331)	(86)
	995	1,028
Investing activities		
Acquisitions of businesses and investments, less cash therein of $64 million (1999 – $37 million) (note 17)	(2,824)	(337)
Proceeds from disposals of businesses and investments (note 17)	387	412
Additions to property and equipment, less proceeds from disposals of $17 million (1999 – $5 million)	(585)	(472)
Other investing activities, net	(226)	(162)
Proceeds from disposals of newspaper businesses, net of tax (notes 2 and 20)	1,868	–
	(1,380)	(559)
Financing activities		
Proceeds from debt	990	13
Repayments of debt	(425)	(273)
Dividends paid on common shares (note 13)	(271)	(255)
	294	(515)
	(91)	(46)
Translation adjustments	(2)	(8)
Decrease in cash and cash equivalents from continuing operations	(93)	(54)
Discontinued operations (note 2)	101	89
Cash and cash equivalents at beginning of year	329	294
Cash and cash equivalents at end of year	337	329

Supplemental cash flow information is provided in notes 3 and 20.

Segmented Information

(millions of US dollars)

Thomson is an e-information and solutions company in the business and professional marketplaces. Thomson operates in four market segments mainly in the United States, the United Kingdom and Canada (note 24).

Business Segments – 2000

	Legal & Regulatory	Financial	Learning	Scientific & Healthcare	Corporate and other[1]	Total
Revenues	2,620	1,775	1,405	743	(29)	6,514
Earnings before interest, tax, depreciation, amortization, restructuring charges and Year 2000 costs	774	378	345	178	(141)	1,534
Depreciation	(128)	(133)	(126)	(29)	–	(416)
Operating profit before amortization, restructuring charges and Year 2000 costs	646	245	219	149	(141)	1,118
Additions to capital assets[2]	850	1,708	1,150	79	160	3,947
Assets – continuing operations	6,291	3,332	2,851	808	2,229	15,511
– discontinued operations	–	–	–	–	188	188
Total assets	6,291	3,332	2,851	808	2,417	15,699

Business Segments – 1999

	Legal & Regulatory	Financial	Learning	Scientific & Healthcare	Corporate and other[1]	Total
Revenues	2,375	1,472	1,099	806	–	5,752
Earnings before interest, tax, depreciation, amortization, restructuring charges and Year 2000 costs	706	370	258	174	(101)	1,407
Depreciation	(128)	(110)	(109)	(39)	–	(386)
Operating profit before amortization, restructuring charges and Year 2000 costs	578	260	149	135	(101)	1,021
Additions to capital assets[2]	350	178	229	60	5	822
Assets – continuing operations	5,771	1,658	1,858	1,064	1,919	12,270
– discontinued operations	–	–	–	–	1,536	1,536
Total assets	5,771	1,658	1,858	1,064	3,455	13,806

1 Corporate and other from continuing operations principally comprises corporate costs, minority interests and the costs associated with the stock appreciation rights of Thomson. Corporate and other assets from continuing operations comprise cash, investments and overfunded pension assets, together with goodwill of $1,190 million (1999 – $1,144 million) recognized in connection with the provisions of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3465, “Income Taxes” (see note 4).

2 Capital assets include property and equipment, identifiable intangible assets and goodwill.

Segmented Information

(millions of US dollars)

Geographic Segments – 2000

	United States	United Kingdom	Canada	Other countries	Corporate and other[1]	Total
Revenues	5,318	497	326	414	(41)	6,514
Earnings before interest, tax, depreciation, amortization, restructuring charges and Year 2000 costs	1,487	95	14	79	(141)	1,534
Depreciation	(355)	(26)	(15)	(20)	–	(416)
Operating profit before amortization, restructuring charges and Year 2000 costs	1,132	69	(1)	59	(141)	1,118
Capital assets[2]	9,018	928	136	925	1,202	12,209
Assets – continuing operations	10,641	1,184	177	1,280	2,229	15,511
– discontinued operations	–	–	–	–	188	188
Total assets	10,641	1,184	177	1,280	2,417	15,699

Geographic Segments – 1999

	United States	United Kingdom	Canada	Other countries	Corporate and other[1]	Total
Revenues	4,759	436	302	255	–	5,752
Earnings before interest, tax, depreciation, amortization, restructuring charges and Year 2000 costs	1,302	92	42	72	(101)	1,407
Depreciation	(334)	(25)	(13)	(14)	–	(386)
Operating profit before amortization, restructuring charges and Year 2000 costs	968	67	29	58	(101)	1,021
Capital assets[2]	7,442	357	113	477	1,144	9,533
Assets – continuing operations	8,890	545	159	757	1,919	12,270
– discontinued operations	–	–	–	–	1,536	1,536
Total assets	8,890	545	159	757	3,455	13,806

1 Corporate and other from continuing operations principally comprises corporate costs, minority interests and the costs associated with the stock appreciation rights of Thomson. Corporate and other assets from continuing operations comprise cash, investments and overfunded pension assets, together with goodwill of $1,190 million (1999 – $1,144 million) recognized in connection with the provisions of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3465, "Income Taxes" (see note 4).

2 Capital assets include property and equipment, identifiable intangible assets and goodwill.

(unless otherwise stated, all amounts in tables are in millions of US dollars)

Note 1: Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of Thomson include all effectively controlled companies and the proportionate share in joint venture interests and are prepared in accordance with accounting principles generally accepted in Canada.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Foreign Currency

Assets and liabilities of self-sustaining subsidiaries denominated in currencies other than US dollars are translated at December 31 rates of exchange and the results of their operations are translated at average rates of exchange for the year. The resulting translation adjustments are accumulated in a separate component of shareholders' equity. Other currency gains or losses are included in earnings.

The rates of exchange used to translate amounts expressed in the significant currencies other than US dollars are as follows:

	2000	1999
Pound sterling (US$/£1)		
Average for the year	$ 1.51	$ 1.62
At December 31	$ 1.49	$ 1.61
Canadian dollar (US$/Cdn$1)		
Average for the year	$ 0.67	$ 0.67
At December 31	$ 0.67	$ 0.69

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and investments with an original maturity at the date of purchase of three months or less.

Inventories

Inventories comprise principally finished goods and are valued at the lower of cost and net realizable value. Cost is determined principally on a first-in, first-out basis.

Research and Development

Research costs are expensed as incurred. Development costs which meet certain criteria specified in generally accepted accounting principles, including reasonable assurance regarding future benefits, are capitalized and amortized over the anticipated period of benefit, not to exceed three years.

Capitalized Software

Certain costs incurred in connection with the development of software to be used internally are capitalized once certain criteria are met. The capitalized amounts, net of accumulated amortization, are included in "Property and equipment" in the consolidated balance sheet.

In connection with the development of software that is intended to be marketed to customers, certain costs are capitalized once technological feasibility of the product is established and a market for the product has been identified. The capitalized amounts, net of accumulated amortization, are included in "Other noncurrent assets" in the consolidated balance sheet. The capitalized amounts are amortized over the expected period of benefit not to exceed three years. Capitalized software intended to be marketed, previously reported within "Property and equipment" (cost of $112 million and accumulated amortization of $57 million at December 31, 1999) has been reclassified to conform with the current year's presentation.

Investments

The equity method of accounting is used to account for investments in businesses over which Thomson has the ability to exercise significant influence. Under the equity method, the investment is initially recorded at cost and is adjusted to reflect the Company's share of net earnings or losses of the investee companies and reduced by dividends received.

The cost method of accounting is used to account for investments in businesses over which Thomson does not have the ability to exercise significant influence.

Declines in market values below carrying amounts are recognized when such declines are considered to be other than temporary.

Property and Equipment

Property and equipment are recorded at cost and depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings and building improvements	5–40 years
Machinery and equipment	3–10 years
Computer hardware	3–5 years
Internal-use computer software	3–10 years

Identifiable Intangible Assets and Goodwill

Identifiable intangible assets are recorded at acquisition cost and are amortized over periods not exceeding 40 years. Goodwill represents the excess of the cost of acquired businesses over values attributed to underlying net tangible assets and identifiable intangible assets, and is amortized over periods not exceeding 40 years.

The carrying values of identifiable intangible assets and goodwill are periodically reviewed to determine if any permanent impairment has occurred. Impairment is determined by comparing the undiscounted amount of expected future operating cash flows with the unamortized balances of these assets. Any permanent impairment in the amount of identifiable intangible assets and goodwill is expensed.

Derivative Financial Instruments

Thomson enters into hedging arrangements through the forward currency exchange and swap markets to reduce its exposure to currency and interest rate fluctuations. While the hedging instruments are subject to the risk of loss from changes in interest and exchange rates, these losses are offset by gains on the exposures being hedged.

Gains and losses on derivative contracts designated as hedges of existing assets and liabilities, including dividends on preferred shares, are accrued as exchange rates change, thereby offsetting gains and losses from the underlying assets and liabilities.

The differential paid or received on interest rate swap agreements is recognized as part of net interest expense.

Revenue Recognition

Discrete Products

Revenues from sales of discrete products (defined as products that are separate and distinct from any other product and require no further substantive performance obligations on the part of the Company after shipment) are recognized when delivery has occurred and significant risks and rewards of ownership have transferred to the buyer, provided that the price is fixed or determinable and ultimate collection is reasonably assured. Revenues from sales of these products are recognized net of estimated returns.

Subscription-Based Products (excluding software)

Revenues from sales of subscription-based products are primarily recognized ratably over the terms of the subscriptions. Where applicable, usage fees above a base period fee are recognized as earned. Subscription revenue received or receivable in advance of the delivery of services or publications is included in deferred revenue. Incremental costs that are directly related to the subscription revenue are deferred and amortized over the subscription period.

Software-Related Products and Services

Revenues from software-related products are recognized when the following four criteria are met:

- Persuasive evidence of an arrangement exists;
- Installation (where required) and delivery has occurred;
- The fee is fixed or determinable; and
- Collectibility is probable.

If the criteria above are met, the license fee generally is recognized ratably on a straight-line basis over the license period. Alternatively, if there is no associated licensing period, revenues are recognized in accordance with the recognition policies described under *Discrete Products* above.

Certain contracts specify separate fees for the software and the ongoing fees for maintenance and other support. If sufficient verifiable objective evidence of the fair value of each element of the arrangement exists, the elements of the contract are unbundled and the revenue for each element is recognized as appropriate.

Other Service Contracts

For a majority of service or consulting arrangements, revenues are recognized using either the percentage-of-completion method of accounting or the straight-line method. Under the percentage-of-completion method, revenues are recognized based on a comparison of employee time and other costs incurred to perform the related services to the total estimated time and costs to be incurred for the project. Under certain contracts, contractual milestones are also considered.

Stock-Based Compensation Plans

Thomson has a Stock Appreciation Rights (SAR) plan and a stock incentive plan which are described in note 19.

Under the SAR plan, compensation expense is recognized as SARs appreciate in value based on the fair market value of the Company's common stock at the end of each reporting period.

Under the stock incentive plan, Thomson can grant stock options and other equity-based awards to certain employees and members of the Thomson Board of Directors for up to 20,000,000 shares of common stock. The options vest over a period of four to five years. The maximum term of an option is 10 years from date of grant. Because options under the plan are granted at a price equal to the fair market value of the Company's common stock on the date of grant, no compensation expense is recognized in connection with the plan.

Deferred Income Taxes

Thomson has adopted the provisions of Section 3465 of the Canadian Institute of Chartered Accountants (CICA) Handbook, "Income Taxes," on a retroactive basis with restatement. Under this accounting policy, deferred income taxes are determined based on the difference between the financial reporting and tax bases of assets and liabilities using the enacted or substantially enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. Deferred tax assets are recorded if management determines that it is more likely than not that such deferred tax assets will be realized within the foreseeable future. Income tax expense for the period is the tax payable for the period and the change during the period in deferred tax assets and liabilities.

Employee Future Benefits

Thomson sponsors both defined benefit and defined contribution employee future benefit plans covering substantially all employees. Effective January 1, 2000, Thomson changed its method of accounting for employee future benefits to conform with the requirements of CICA Handbook Section 3461, "Employee Future Benefits." Under the new method, costs for employee future benefits are accrued over the periods in which employees earn the benefits.

The change has been applied retroactively, on a cumulative adjustment basis, with no restatement of the 1999 financial statements. As a result of the adoption, at January 1, 2000, liabilities for employee future benefits were increased by $118 million and retained earnings were decreased by $78 million, net of tax. The adoption of the new standard had no material impact on earnings.

Newly Issued Accounting Standards

In December 2000, the CICA issued Handbook Section 3500, "Earnings per Share." The standard is effective for fiscal years beginning on or after January 1, 2001. The new rules require a change in the manner in which the dilutive effect of warrants and options is calculated. The new rules will not have an impact on the calculation of earnings; however, application of those rules may result in a warrant or option being considered dilutive when it would not have been under previously existing rules. See note 19 for information related to options outstanding.

In November 2000, the Emerging Issues Committee (EIC) of the CICA issued EIC-114, "Liability Recognition for Costs Incurred on Purchase Business Combinations." The guidance in that consensus must be applied to all business combinations consummated after December 31, 2000. Under that consensus, costs related to the acquiring company and certain restructuring and integration costs may no longer be considered part of the purchase price allocation. Future business combinations of the Company will be accounted for in accordance with EIC-114.

Comparative Amounts

Where necessary, certain amounts for 1999 have been reclassified to conform with the current year's presentation.

Note 2: Discontinued Operations

On February 15, 2000, Thomson announced its intention to sell Thomson Newspapers (TN). The primary activities of TN were the publishing of daily and non-daily newspapers, and other advertising and specialty publications in the US and Canada. During 2000, Thomson sold 51 of the 54 publications that had previously been identified for sale. The Company expects to complete the disposition of the remaining assets in 2001.

In 2000 and 1999, the results, cash flows, and assets and liabilities of TN have been accounted for as a discontinued operation.

The earnings from discontinued operations are:

	2000	1999
Revenues from discontinued operations	592	817
Earnings from operations before income taxes	62	139
Income taxes	–	(16)
Earnings from operations	62	123
Gain on sale of discontinued operations	1,053	–
Tax on gain	(463)	–
Net gain on sale of discontinued operations	590	–
Earnings from discontinued operations	652	123

Operating loss before amortization, restructuring charges and Year 2000 costs during the period from January 1, 2000, to the measurement date of February 15, 2000, was $7 million.

Noncurrent assets of discontinued operations principally comprise property and equipment, identifiable intangible assets and goodwill for both 2000 and 1999.

Cash flow from discontinued operations includes operating cash generated by TN of $121 million (1999 – $121 million) and a use of cash relating to investing activities of $20 million (1999 – $32 million).

In February 2001, Thomson sold an additional publication in Canada for proceeds of $26 million.

Note 3: Net Interest Expense and Other Financing Costs

	2000	1999
Interest income	17	19
Interest on short-term indebtedness	(21)	(24)
Interest on long-term debt	(200)	(181)
	(204)	(186)

Interest paid on short-term indebtedness and long-term debt during 2000 was $205 million (1999 – $201 million) and interest received during 2000 was $16 million (1999 – $17 million).

Note 4: Income Taxes

In 2000, Thomson adopted the new accounting recommendations for income taxes in accordance with the CICA Handbook. The revised tax accounting standard has the effect of lowering the effective book tax rates for both the current and prior periods, with no effect on cash taxes paid. The effects of this change in accounting policy have been reflected retroactively and the results of comparative periods restated accordingly. Under the new income tax standard, goodwill and deferred income taxes have each been increased by approximately $1.3 billion as of January 1, 1999, to account for the cumulative differences between the book and tax values of all assets and liabilities, excluding goodwill, which were not previously recorded. The principal impact of the new standard arises from restating business combinations where, as a result of purchasing stock, the excess purchase price over the tax basis of the net assets acquired is not deductible for tax purposes. The comparative earnings for 1999 have been restated to reflect the amortization of the additional goodwill and the release of the related additional deferred income tax resulting from the retroactive adoption of the revised income tax standard.

Significant components of the provision for income taxes consist of the following:

	2000	1999
Current income taxes from continuing operations	56	121
Deferred income tax (benefit) from continuing operations	(71)	(58)
Income tax (benefit) provision	(15)	63

The tax effects of the significant components of temporary differences giving rise to the Company's deferred income tax assets and liabilities at December 31 are as follows:

	2000	1999
Liabilities for differences between book and tax bases of assets	1,440	1,359
Total other assets – net of other liabilities	(156)	(42)
Net continuing deferred income taxes	1,284	1,317

The Canadian corporate tax rate is approximately 44%. The following is a reconciliation of income taxes calculated at the Canadian corporate tax rate with the income tax (benefit) provision:

	2000	1999
Earnings before taxes from continuing operations	584	500
Income taxes at the Canadian corporate tax rate	259	222
Differences attributable to:		
Non-deductible goodwill amortization	69	35
Effect of income recorded at rates lower than the Canadian tax rate	(222)	(132)
Recording of net operating losses	(124)	(30)
Other – net	3	(32)
Income tax (benefit) provision from continuing operations	(15)	63

Thomson and its subsidiaries have certain tax loss carryforwards, the benefit of which has not been recorded in the financial statements. These tax loss carryforwards approximate $400 million, the majority of which expire between 2001 and 2010, with the remainder having an indefinite life. The ability to realize these benefits is dependent upon a number of factors including the future profitability of operations in the jurisdictions in which the tax losses arose.

Note 5: Earnings per Common Share

Basic earnings per common share are calculated using the weighted average number of common shares outstanding during the year. The weighted average number of common shares outstanding in 2000 was 623,242,191 (1999 – 618,092,000). Because the effect of the options outstanding under the stock incentive plan (see note 19) is not dilutive, presentation of a fully diluted earnings per share amount is not required.

Note 6: Property and Equipment

	2000	1999
Land and buildings	407	304
Machinery and equipment	734	762
Computer hardware	1,044	858
Internal-use computer software	823	529
	3,008	2,453
Accumulated depreciation	(1,629)	(1,405)
	1,379	1,048

The depreciation charge in 2000 was $416 million (1999 – $386 million), of which $120 million (1999 – $101 million) represented amortization of capitalized internal-use computer software.

Note 7: Identifiable Intangible Assets

	2000	1999
Identifiable intangible assets	5,597	5,111
Accumulated amortization	(938)	(708)
	4,659	4,403

The amortization charge in 2000 was $167 million (1999 – $132 million).

Note 8: Goodwill

	2000	1999
Goodwill	6,777	4,614
Accumulated amortization	(606)	(532)
	6,171	4,082

The amortization charge in 2000 was $160 million (1999 – $126 million).

Note 9: Development Costs

Information relating to development costs associated with internal ventures is as follows:

	2000	1999
Expenditures	108	135
Development costs capitalized	(70)	(110)
Amortization of amounts previously capitalized	99	93
	137	118

Other noncurrent assets include $110 million (1999 – $139 million) of unamortized deferred development costs.

Note 10: Software Intended to be Marketed

	2000	1999
Capitalized software	89	112
Accumulated amortization	(47)	(57)
	42	55

The amortization charge in 2000 was $13 million (1999 – $16 million).

Note 11: Financial Instruments

Carrying Amounts

Amounts recorded in the consolidated balance sheet are referred to as "carrying amounts" and are based on year-end exchange rates, as applicable.

For non-US dollar denominated debt which is hedged into US dollars by derivative contracts, the primary debt carrying amounts are reflected in long-term debt. The related receivables or payables arising from translation gains and losses on the derivative contracts, which effectively offset the gains and losses on translation of the primary debt, are included within "Other noncurrent assets," "Other noncurrent liabilities" or "Accounts payable and accruals," as appropriate.

Fair Values

The fair values of cash and cash equivalents, accounts receivable, short-term indebtedness and accounts payable approximate their carrying amounts because of the short-term maturity of these instruments. The fair value of long-term debt, including the current portion, is estimated based on either quoted market prices for similar issues or current rates offered to Thomson for debt of the same maturity. The fair values of interest rate swaps and any related forward contracts are estimated based upon discounted cash flows using applicable current market rates. The fair values of foreign exchange contracts reflect the estimated amounts at which the Company would have to settle all outstanding contracts on December 31. The fair values of publicly traded long-term investments are based on quoted market prices. The fair values of privately held long-term investments are estimated by management. The fair values represent point-in-time estimates that may not be relevant in predicting the Company's future earnings or cash flows.

Credit Risk

Thomson attempts to minimize its credit exposure on derivative contracts by entering into transactions only with counterparties that are major investment grade international financial institutions.

Long-Term Debt

The following is a summary of long-term debt:

	Carrying amount			Fair value		
As at December 31, 2000	Primary debt instruments	Currency swap instruments	Hedged debt	Primary debt instruments	Currency swap instruments	Hedged debt
Bank and other	756	11	767	756	11	767
10.55% Debentures, due 2001	167	49	216	169	47	216
7.90% Debentures, due 2002	167	43	210	172	37	209
7.70% Debentures, due 2003	167	29	196	175	20	195
9.15% Debentures, due 2004	167	15	182	183	(3)	180
7.95% Debentures, due 2005	167	19	186	179	5	184
7.15% Debentures, due 2006	167	18	185	175	8	183
6.50% Debentures, due 2007	167	13	180	168	9	177
Private placements, due 2001–2010	625	–	625	645	–	645
	2,550	197	2,747	2,622	134	2,756
Current portion	(229)	(49)	(278)			
	2,321	148	2,469			

	Carrying amount			Fair value		
As at December 31, 1999	Primary debt instruments	Currency swap instruments	Hedged debt	Primary debt instruments	Currency swap instruments	Hedged debt
Bank and other	489	(5)	484	489	(5)	484
10.55% Debentures, due 2001	172	44	216	182	35	217
7.90% Debentures, due 2002	172	38	210	178	31	209
7.70% Debentures, due 2003	172	24	196	178	16	194
9.15% Debentures, due 2004	172	10	182	188	(11)	177
7.95% Debentures, due 2005	172	14	186	182	2	184
7.15% Debentures, due 2006	172	13	185	175	7	182
6.50% Debentures, due 2007	172	8	180	169	9	178
Floating rate notes, due 2000	150	–	150	150	–	150
Private placements, due 2000–2006	500	–	500	504	–	504
	2,343	146	2,489	2,395	84	2,479
Current portion	(434)	–	(434)			
	1,909	146	2,055			

Bank and other debt at December 31, 2000, and December 31, 1999, is primarily US dollar denominated. In both years, all the debentures are Canadian dollar denominated and are fully hedged into US dollars. The floating rate notes and private placements are US dollar denominated.

After taking account of the hedging arrangements, the carrying amount of long-term debt, all of which is unsecured, is denominated in the following currencies:

	2000	1999
US dollar	2,664	2,403
Other currencies	83	86
	2,747	2,489

Maturities of long-term debt after accounting for hedges in each of the next five years and thereafter are: $279 million in 2001, $511 million in 2002, $197 million in 2003, $885 million in 2004, $311 million in 2005 and $564 million in 2006 and thereafter.

At December 31, 2000, undrawn bank facilities, which have expiration dates in August 2004, amounted to approximately $600 million.

Interest Rate Risk Exposures

Thomson enters into interest rate swap agreements to reduce the impact of changes in interest rates on floating rate debt. The notional amount of interest rate swap agreements is used to measure interest to be paid or received and does not represent the amount of exposure to credit loss. The fair value of interest rate swap agreements as at December 31, 2000, was $21 million in favor of the counterparties (1999 – $8 million in favor of Thomson). Floating interest rate long-term debt is LIBOR based, and consequently, interest rates are reset periodically. The Company's exposures to interest rate risk on total long-term debt as at December 31, 2000, are summarized as follows:

	With fixed interest rates maturing in:				With floating interest rates	Total
	Less than 1 year	1 to 5 years	More than 5 years	Total fixed		
Long-term debt[1]	269	1,133	504	1,906	841	2,747
Interest rate swaps	–	197	–	197	(197)	–
	269	1,330	504	2,103	644	2,747

1 After currency swaps.

After taking account of hedging arrangements, the fixed and floating mix of long-term debt is as follows:

	2000	Average interest rate	% Share	1999	Average interest rate	% Share
Total fixed	2,103	6.9%	77%	2,322	6.8%	93%
Total floating	644	6.5%	23%	167	5.9%	7%
	2,747	6.8%	100%	2,489	6.7%	100%

Hedges of Net Investments in Foreign Affiliates

Thomson hedges selected investments in non-US dollar denominated net assets by way of forward exchange contracts. In the following summary of net asset hedges outstanding, the "contractual amount" represents the contracted US dollar equivalent of commitments to sell foreign currencies. The 2000 and 1999 amounts represent a Japanese Yen contract which matures in 2004.

	2000	1999
Net asset hedges outstanding:		
Contractual amount	29	29
Carrying amount – gain	12	11
Fair value – gain	8	4

Foreign Exchange Contracts

The Company uses foreign exchange contracts to manage foreign exchange risk. The notional amounts for foreign exchange contracts represent the US dollar equivalent of an amount exchanged. Generally, foreign exchange contracts are designated for firm commitments or anticipated transactions that are expected to occur in less than one year.

The fair values of the foreign exchange contracts approximate their carrying values.

The following table presents the US dollar equivalent of the absolute notional amounts of those forward exchange contracts expressed in the underlying functional currencies.

	2000
Pounds sterling	128
US dollars	37
Canadian dollars	16
Others	12
	193

The amount of foreign exchange contracts outstanding at December 31, 1999, was not material.

Investments

Investments accounted for using the equity method are carried at cost and adjusted to reflect the Company's share of earnings or losses of the investee companies and reduced by dividends received. At December 31, 2000, those investments had a carrying amount of $65 million and are included in "Other noncurrent assets." These investments did not have market quotations. There were no such material equity-method investments at December 31, 1999. Losses from equity-method investments were immaterial in both 2000 and 1999.

Investments accounted for using the cost method total $134 million (1999 – $48 million) and are included in "Other noncurrent assets." As at December 31, 2000, the fair market value of these investments is $112 million (1999 – $162 million), of which $6 million are publicly traded securities.

Note 12: Preference Share Capital

	2000		1999	
	Number of shares	Stated capital	Number of shares	Stated capital
Series II	6,000,000	110	6,000,000	110
Series V	18,000,000	332	18,000,000	332
		442		442

The authorized preference share capital of Thomson is an unlimited number of preference shares without par value. The directors are authorized to issue preference shares without par value in one or more series, and to determine the number of shares in, and terms attaching to, each such series.

Series II, Cumulative Redeemable Preference Shares

The Series II preference shares are non-voting and are redeemable at the option of Thomson for Cdn $25.00 per share, together with accrued dividends. Dividends are payable quarterly thereon at an annual rate of 70% of the Canadian bank prime rate applied to the stated capital of such shares. The total number of authorized Series II preference shares is 6,000,000.

Series V, Cumulative Redeemable Preference Shares

The Series V preference shares are non-voting and are redeemable at the option of Thomson on January 2, 2002, for Cdn $25.00 per share and thereafter for Cdn $25.50, together with accrued dividends. Through January 1, 2002, dividends are payable quarterly at Cdn $1.25 per share per annum. Subsequent to January 1, 2002, dividends will be payable monthly at a rate which floats in relation to changes in both the Canadian bank prime rate and the calculated trading price of the Series V preference shares. In no event, however, will the annual floating dividend rate applicable for a month be less than 50% of prime or greater than prime. The total number of authorized Series V preference shares is 18,000,000.

Note 13: Common Share Capital and Dividends

Thomson Common Shares

	2000		1999	
	Number of shares	Stated capital	Number of shares	Stated capital
Balance at beginning of year	621,393,384	1,439	615,823,077	1,288
Issued	4,370,701	156	5,570,307	151
Redemption of Thomson PLC shares	–	(3)	–	–
Issuance of Thomson PLC "A" ordinary shares	–	1	–	–
Balance at end of year	625,764,085	1,593	621,393,384	1,439

The common shares, which have no par value, are voting shares. The authorized common share capital of Thomson is an unlimited number of shares.

Holders of the common shares may participate in the dividend reinvestment plan (DRIP) under which cash dividends are automatically reinvested in new common shares having a value equal to the cash dividend. Such shares are valued at the weighted average price at which the common shares were traded on The Toronto Stock Exchange during the five trading days immediately preceding the record date for such dividend. All of the share issues made in 2000 and 1999 were in connection with the DRIP.

Thomson PLC Common Shares

Holders of 5.999.257 of Thomson common shares (1999 – 232.644.452) also hold the same number of related common shares of The Thomson Corporation PLC (Thomson PLC) at par value of one sterling penny each. The holders of these shares have the alternative to receive their dividends in pounds sterling. During 2000. 226.649.141 of the related Thomson PLC shares were redeemed at par for $3.4 million. of which a majority were from a related party. See note 22.

Thomson PLC "A" Ordinary Shares

In 2000. Thomson PLC issued 10.982.764 "A" ordinary shares with a par value of four sterling pence each to The Woodbridge Company Limited (Woodbridge) out of 15 million shares available to be issued. See note 22.

Such shares are entitled to 5% of the votes at general meetings of the shareholders of Thomson PLC and may be redeemed by Thomson PLC at any time after January 1. 2004 at their par value. Dividends on those shares rank pari passu with dividends on the ordinary shares of Thomson PLC and cannot exceed 5% of the par value thereof. and the holder cannot receive by way of payment on winding up or return of capital an amount in excess of such par value. See note 22.

Included in the stated capital of Thomson is $0.7 million (1999 – $4 million) in respect of the Thomson PLC related common and "A" ordinary shares.

Dividends

Dividends on the Thomson common shares are declared and payable in US dollars. Dividends declared per common share in 2000 were 68.5 cents (1999 – 65.8 cents). Equivalent dividends of 45.0312 pence (1999 – 40.2162 pence) were paid per related common share of Thomson PLC. Shareholders have the option of receiving dividends on the Thomson common shares in equivalent Canadian funds.

In the consolidated statement of cash flow. dividends paid on common shares are shown net of $9 million (1999 – $15 million) reinvested in common shares issued under the DRIP and $147 million (1999 – $136 million) by way of private placements of common shares with the Company's major shareholders. These private placements. together with the DRIP. satisfied the commitment of the Company's major shareholders to participate in the DRIP for at least 50% of the dividends declared on the Thomson common shares directly and indirectly owned by them. The Company's major shareholders acquired these common shares on the same terms and conditions under which Thomson issues common shares to shareholders participating in the DRIP.

Note 14: Employee Future Benefits

Thomson sponsors both defined benefit and defined contribution employee future benefit plans covering substantially all employees. Effective January 1. 2000. Thomson changed its method of accounting for employee future benefits to conform with the requirements of CICA Handbook Section 3461, "Employee Future Benefits." Under the new method. costs for employee future benefits are accrued over the periods in which employees earn the benefits.

The change has been applied retroactively. on a cumulative adjustment basis. with no restatement of 1999 financial statements. As a result of the adoption. at January 1. 2000, liabilities for employee future benefits were increased by $118 million and retained earnings were decreased by $78 million. net of tax. The adoption of the new standard had no material impact on earnings.

Defined Benefit Plans

Thomson sponsors defined benefit arrangements providing pension and other post-retirement benefits to substantially all employees. The costs of defined benefit plans are actuarially determined using the projected benefits method prorated on service and management's best estimates of expected plan investment performance, increases in salaries and ages of employees upon retirement. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment. The excess of net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of the plan assets is amortized over the average remaining service period of active employees.

The following significant weighted average actuarial assumptions were employed to determine the periodic pension and post-retirement plans expense and the accrued benefit obligations:

	Pensions		Other post-retirement plans	
	2000	1999[1]	2000	1999[1]
Expected long-term rate of return on plan assets	9.0%	8.9%	N/A	N/A
Discount rate	7.2%	7.2%	7.7%	7.6%
Rate of compensation increase	4.8%	4.7%	5.6%	5.6%

The Company's net defined benefit plan expense (income) is as follows:

	Pensions		Other post-retirement plans	
	2000	1999[1]	2000	1999[1]
Current service cost	32	34	1	1
Interest cost	95	92	5	5
Expected return on plan assets	(130)	(122)	–	–
Amortization of net transition obligation	2	2	–	–
Amortization of net actuarial (gain) loss	(1)	1	(6)	(5)
Credit due to non-routine events	(6)	–	(6)	–
Valuation allowance provided against accrued benefit asset	9	–	–	–
Net defined benefit plan expense (income)	1	7	(6)	1

[1] As Thomson changed its method of accounting for employee future benefits effective January 1, 2000, the 1999 information is presented for informational purposes only.

Information about the defined benefit plans, in aggregate, is as follows:

	Pensions		Other post-retirement plans	
	2000	1999[1]	2000	1999[1]
Accrued benefit obligation				
Beginning accrued benefit obligation	1,369	1,404	66	71
Current service cost	32	34	1	1
Interest cost	95	92	5	5
Employee contributions	5	4	1	–
Actuarial (gains) losses	10	(84)	16	(6)
Non-routine events	(3)	–	(5)	–
Acquisitions, net	20	–	–	–
Benefits paid	(72)	(71)	(6)	(5)
Translation adjustments	(45)	(10)	–	–
Ending accrued benefit obligation	1,411	1,369	78	66
Plan assets				
Begining fair value of plan assets	1,612	1,453	–	–
Actual return on plan assets	233	224	–	–
Employer contributions	11	11	5	5
Employee contributions	5	4	1	–
Benefits paid	(72)	(71)	(6)	(5)
Acquisitions, net	11	1	–	–
Translation adjustments	(50)	(10)	–	–
Ending fair value of plan assets	1,750	1,612	–	–
Funded status – surplus (deficit)	339	243	(78)	(66)
Unamortized net actuarial gain	(233)	(151)	(26)	(51)
Unamortized past service costs	2	(2)	(1)	1
Unamortized net transitional obligation	2	4	–	–
Fourth quarter activity	3	3	1	1
Accrued benefit asset (liability)	113	97	(104)	(115)
Valuation allowance	(37)	(28)	–	–
Accrued benefit asset (liability) net of valuation allowance	76	69	(104)	(115)

[1] As Thomson changed its method of accounting for employee future benefits effective January 1, 2000, the 1999 information is presented for informational purposes only.

The accrued benefit obligations of unfunded pension plans at December 31, 2000 and 1999 were $85 million and $76 million, respectively. The accrued benefit obligations of underfunded plans at December 31, 2000 was $33 million, with an associated fair value of plan assets of $28 million. There were no underfunded plans at December 31, 1999.

The average healthcare cost trend rate used was 7.25%, which is reduced 0.5% per year until 2005. A 1% increase in trend rates would result in an increase in the accrued benefit obligation for post-retirement benefits of approximately 9%.

Defined Contribution Plans

The Company and its subsidiaries sponsor various defined contribution savings plans that have provisions for company-matching contributions. Total expense related to defined contribution plans was $43 million in 2000 (1999 – $43 million).

Note 15: Contingencies and Commitments

Contingencies

At December 31, 2000, certain lawsuits and other claims in the normal course of business were pending against Thomson. While the outcome of these matters is subject to future resolution, management's evaluation and analysis of such matters indicates that, individually and in the aggregate, the probable ultimate resolution of such matters will not have a material effect on the Company's consolidated financial statements.

Operating Leases

Operating lease payments in 2000 were $168 million (1999 – $116 million). The future minimum operating lease payments are $159 million in 2001, $153 million in 2002, $139 million in 2003, $110 million in 2004, $94 million in 2005 and $324 million in 2006 and thereafter.

Note 16: Restructuring Costs

In the third and fourth quarters of 1999, management instituted a review of operations within its four segments, resulting in the approval of restructuring programs and related provisions within the framework of the Company's strategic plan to rationalize product lines and sales channels, reduce personnel, enhance administrative efficiencies and focus on core product and service lines. In connection with the 1999 program, the Company incurred an additional $12 million in 2000, primarily related to further personnel reductions and other exit costs within Legal & Regulatory.

In 2000, management approved additional plans, within the framework of the Company's original strategic initiatives to improve operational and administrative efficiencies, which resulted in a charge of $9 million. Additionally, as a result of the acquisition of Primark (see note 17) management approved a plan in 2000 to reorganize the various business units of the Financial group resulting in a total charge of $16 million.

Accordingly, total charges for the 2000 and 1999 restructuring activities of $37 million and $38 million, respectively, were recorded in the following market segments:

	2000	1999
Legal & Regulatory	12	10
Financial	15	16
Learning	2	8
Scientific & Healthcare	4	–
Corporate and other	4	4
	37	38

The following table displays the activity and balances of the restructuring liability account, included in "Accounts payable and accruals," from January 1, 1999, to December 31, 2000:

		1999 activity			2000 activity		
Type of Cost	Balance 01/01/99	Charges	Utilization	Balance 12/31/99	Charges	Utilization	Balance 12/31/00
Capital asset write-offs	–	19	(19)	–	4	(4)	–
Severance	–	14	(7)	7	28	(22)	13
Contract cancellation costs	–	5	–	5	2	(2)	5
Other exit costs	–	–	–	–	3	(2)	1
	–	38	(26)	12	37	(30)	19

Of the 2000 restructuring charges recorded, approximately $33 million (1999 – $19 million) represented expected cash outlays and $4 million (1999 – $19 million) represented non-cash write-offs. Management expects that a majority of the initiatives included within the 2000 restructuring program will be completed in 2001.

Note 17: Acquisitions and Disposals of Businesses and Investments

Businesses and investments were acquired during the year for an aggregate cash consideration of $2,888 million (1999 – $374 million). Additionally, in 2000, an investment was acquired by way of a non-cash asset exchange valued at $40 million. All acquisitions have been accounted for on the purchase basis and the results of acquired businesses are included in the consolidated financial statements from the dates of acquisition. The acquisitions and disposals included in Corporate and other represent long-term investments which are described in note 11.

Details of net assets acquired are as follows:

	Legal & Regulatory	Financial	Learning	Scientific & Healthcare	Corporate and other	2000 total	1999 total
Working capital, including cash of $64 million (1999 – $37 million)	(69)	(92)	(55)	(2)	–	(218)	21
Property and equipment	48	114	67	1	–	230	4
Identifiable intangible assets	221	253	133	10	–	617	88
Goodwill	398	1,130	785	36	149	2,498	262
Other noncurrent assets	4	10	19	–	111	144	25
Other noncurrent liabilities	(136)	(97)	(1)	–	(149)	(383)	(26)
	466	1,318	948	45	111	2,888	374

Included within the cash consideration above is $243 million relating to the repayment of short-term and long-term debt in conjunction with the acquisition of Primark.

The allocations of the purchase price of Primark and Carson, which were acquired in September 2000, have not been finalized with respect to identifiable intangible assets and goodwill.

The following summarizes major acquisitions:

Date	Company	Description
July 1, 1999	Editorial Aranzadi SA	A publisher of a wide range of publications for legal practitioners and students in Spain
July 30, 1999	Macmillan Library Reference USA	A provider of encyclopedia-type publications
March 3, 2000	Prometric	A provider of computer-based testing and assessment services
May 4, 2000	Dialog's Information Services Division	A leading online information service provider
September 11, 2000	The Carson Group	A financial information organization specializing in global shareholder research and related advisory services
September 14, 2000	Primark Corporation	A leading provider of financial and economic information products and solutions to financial, corporate and governmental decision-makers globally

In 2000, Thomson received $387 million (1999 – $412 million) cash consideration from the disposals of businesses and investments within the following segments:

	2000	1999
Legal & Regulatory	–	107
Financial	5	154
Learning	76	38
Scientific & Healthcare	231	70
Corporate and other	75	43
	387	412

In connection with the non-cash acquisition discussed previously, Thomson disposed of a business valued at $49 million via a non-cash exchange. The resulting loss on this disposal is included within net gains on disposals of businesses and investments.

In addition to the above acquisitions, on October 27, 2000, Thomson announced that it had agreed to purchase from Reed Elsevier plc (Reed) certain select businesses from among those businesses to be acquired by Reed pursuant to its proposed acquisition of all of the outstanding shares of Harcourt General, Inc. (Harcourt). Under the terms of this agreement, Thomson will acquire those businesses for an aggregate purchase price of $2.06 billion upon regulatory approval. The transaction was not consummated as of December 31, 2000, and, therefore, is not reflected in the financial statements or the information presented above.

Note 18: Cumulative Translation Adjustment

An analysis of the cumulative translation losses shown separately in shareholders' equity is as follows:

	2000	1999
Balance at beginning of year	(110)	(84)
Translation and other	(50)	(26)
Balance at end of year	(160)	(110)

Note 19: Stock-Based Compensation

Stock Appreciation Rights Plan

Thomson has a Stock Appreciation Rights (SAR) plan that provides for the granting of SARs to officers and key employees. The objective of this plan is to provide incentives to the holders of the SARs to promote superior long-term performance and earnings growth. The SAR provides the holder the opportunity to earn a cash award equal to the fair market value of the Company's common stock less the price at which the SAR was issued. Compensation expense is measured based on the market price of Thomson common stock at the end of the reporting period. The SARs outstanding under the plan have been granted at prices equal to the market value of Thomson stock on the date of grant, vest over a four- to eight-year period, and expire five to eleven years after the grant date. The compensation expense is amortized over the applicable period. At December 31, 2000, the authorized number of SARs is 20,500,000. At December 31, 2000, there were 2,969,247 units available for grant. Compensation expense recorded in 2000 was $55 million (1999 – $16 million).

A summary of the status of the Thomson SAR plan as of December 31, 2000 and 1999, and changes during the years ending on those dates is as follows:

	2000		1999	
	SARs	Canadian $ weighted average exercise price	SARs	Canadian $ weighted average exercise price
Outstanding at beginning of year	5,907,854	$ 28.28	6,843,987	$ 27.30
Granted	377,940	47.28	17,500	44.09
Exercised	(1,148,398)	25.30	(711,958)	21.26
Cancelled	(744,192)	25.81	(241,675)	22.56
Outstanding at end of year	4,393,204	31.11	5,907,854	28.28
Exercisable at end of year	1,344,958	$ 29.09	1,770,048	$ 26.50

The following table summarizes information on SARs outstanding at December 31, 2000:

	SARs outstanding			SARs exercisable	
Canadian $ range of exercise prices	Number outstanding at 12/31/00	Weighted average remaining contractual life	Canadian $ weighted average exercise price	Number exercisable at 12/31/00	Canadian $ weighted average exercise price
$14.00–19.125	67,700	2.9 years	$ 16.08	44,500	$ 15.83
$21.77–32.125	1,936,562	4.5 years	$ 22.60	635,791	$ 23.10
$33.50–44.50	2,211,002	7.5 years	$ 36.96	664,667	$ 35.72
$49.50–57.40	177,940	9.9 years	$ 56.73	–	$ –

Stock Incentive Plan

On January 24, 2000, the Board of Directors approved the adoption of a stock incentive plan. As of December 31, 2000, none of the granted options were exercisable. At December 31, 2000, there were 15,540,940 shares available for grant.

A summary of the status of the stock incentive plan as of December 31, 2000, and changes during the year ended December 31, 2000, is as follows:

	Options	Canadian $ weighted average exercise price
Outstanding at beginning of year	–	$ –
Granted	4,511,560	49.91
Cancelled	(52,500)	41.00
Outstanding at end of year	4,459,060	$ 50.02

The following table summarizes information on stock options outstanding at December 31, 2000:

	Options outstanding			Options exercisable	
Canadian $ range of exercise prices	Number outstanding at 12/31/00	Weighted average remaining contractual life	Canadian $ weighted average exercise price	Number exercisable at 12/31/00	Canadian $ weighted average exercise price
$33.50–44.50	1,966,000	9.1 years	$ 41.00	–	$ –
$49.50–57.40	2,493,060	9.9 years	$ 57.13	–	$ –

Note 20: Supplemental Cash Flow Information

Details of changes in working capital and other items are:

	2000	1999
Accounts receivable	(42)	(99)
Inventories	4	(11)
Prepaid expenses and other current assets	(74)	10
Accounts payable and accruals	(109)	24
Deferred revenue	(12)	38
Other	(98)	(48)
	(331)	(86)

Income taxes paid during 2000 were $780 million (1999 – $91 million) which included $605 million related to the sale of Thomson Newspapers.

Note 21: Year 2000

During 1999 and the first quarter of 2000, Thomson incurred costs in connection with the "Year 2000" issue. That issue related to concerns that most computer programs recognize an applicable year by its last two digits, rather than all four; as a result, concerns existed that any computer having time-sensitive software may not have accurately recognized the turn of the century.

As Thomson incurred costs to address the Year 2000 issue, costs relating to maintenance or modification were expensed as incurred, while the costs of new hardware and software with future benefits were capitalized and are being amortized over their useful lives. In 2000, Thomson expensed $4 million (1999 – $91 million) of such costs against continuing operations.

Note 22: Related Party Transactions

Through Woodbridge and its affiliates, the Thomson family owns approximately 73% of the common shares of Thomson. In October 2000, Woodbridge subscribed in cash for 10,982,764 "A" ordinary shares of Thomson PLC with a par value of four sterling pence each for $0.6 million. In November 2000, Thomson PLC redeemed 226,223,830 of the common shares of Thomson PLC held by Woodbridge and its affiliates at their aggregate redemption price at par for $3.4 million (see note 13).

In February 2001, Woodbridge subscribed for $250 million of preferred shares of a subsidiary in cash. The preferred shares are redeemable at the option of either Woodbridge or the subsidiary on the first anniversary of the share issue and annually thereafter. Dividends are cumulative and payable annually at 4.6% of the issued capital.

Note 23: Subsequent Events

On January 9, 2001, Thomson entered into a transaction with BCE Inc. and Woodbridge in which Thomson exchanged its interest in *The Globe and Mail* for a 20% equity interest in a new multimedia company, Bell Globemedia, Inc.

On January 30, 2001, Thomson issued Cdn $250 million of debentures, due January 30, 2006. The debentures bear interest at a rate of 6.20% annually, payable in semi-annual installments. The proceeds of the debentures were used to repay existing indebtedness of Thomson.

On February 27, 2001, Thomson announced that it intends to sell certain businesses contained in its Financial group. The businesses to be divested include publications, business products and services primarily targeting the commercial banking sectors as well as several niche markets. The transaction is expected to be completed in 2001.

Note 24: Segmented Information

See pages 42 and 43.

The reportable segments of Thomson are strategic business groups that offer products and services to target markets. The Company's four reportable segments are:

Legal & Regulatory
Information and software-based solutions for legal, tax, accounting, intellectual property, compliance and business professionals.

Financial
Information and integrated work solutions for financial professionals.

Learning
Learning products, services and solutions for individuals, learning institutions and businesses.

Scientific & Healthcare
Information and services for researchers and other professionals in the healthcare, academic, scientific and government marketplaces.

Six-Year Summary (unaudited)

(millions of US dollars except per common share amounts)

	2000	1999	1998	1997	1996	1995
Revenues						
Legal & Regulatory	2,620	2,375	2,216	1,975	1,443	906
Financial	1,775	1,472	1,367	1,142	938	767
Learning	1,405	1,099	1,060	1,110	1,087	1,079
Scientific & Healthcare	743	806	755	725	755	640
Intergroup	(29)	–	–	–	–	–
	6,514	5,752	5,398	4,952	4,223	3,392
EBITDA[1]						
Legal & Regulatory	774	706	655	567	353	171
Financial	378	370	356	315	244	190
Learning	345	258	250	241	256	275
Scientific & Healthcare	178	174	162	158	153	127
Corporate and other[2]	(141)	(101)	(81)	(83)	(65)	(44)
	1,534	1,407	1,342	1,198	941	719
Operating profit before amortization[1]						
Legal & Regulatory	646	578	515	461	287	142
Financial	245	260	269	237	177	137
Learning	219	149	151	144	165	190
Scientific & Healthcare	149	135	124	124	129	105
Corporate and other[2]	(141)	(101)	(81)	(83)	(65)	(44)
	1,118	1,021	978	883	693	530
Earnings from continuing operations	571	409	314	301	197	227
Earnings per common share from continuing operations	$ 0.92	$ 0.66	$ 0.51	$ 0.50	$ 0.33	$ 0.39
Supplemental information						
Earnings from continuing operations as above	571	409	314	301	197	227
Add back (deduct):						
Restructuring costs, net (gains) losses on disposals of businesses and investments, and Year 2000 costs, net of tax	2	52	90	(15)	8	(86)
One-time tax benefits	(105)	–	–	–	–	–
Adjusted earnings from continuing operations	468	461	404	286	205	141
Adjusted earnings per common share from continuing operations	$ 0.75	$ 0.75	$ 0.66	$ 0.47	$ 0.34	$ 0.24

1 Before restructuring charges in 2000 and 1999 of $37 million and $38 million, respectively. Also, before Year 2000 costs in 2000, 1999 and 1998 of $4 million, $91 million and $65 million, respectively. All amounts are pre-tax.

2 Corporate and other principally comprises corporate costs, minority interests and costs associated with stock appreciation rights.

Prior year amounts have been reclassified to conform with the current year's presentation. The above amounts exclude Thomson Regional Newspapers for 1996 and prior periods.

Summarized Quarterly Information (unaudited)

(millions of US dollars except per common share amounts)	Quarter ended March 31 2000	Quarter ended March 31 1999	Quarter ended June 30 2000	Quarter ended June 30 1999	Quarter ended September 30 2000	Quarter ended September 30 1999	Quarter ended December 31 2000	Quarter ended December 31 1999
Revenues								
Legal & Regulatory	505	447	637	571	664	590	813	739
Financial	262	227	267	235	304	243	427	255
Learning	183	125	278	159	490	370	438	335
Scientific & Healthcare	156	147	166	157	159	146	216	202
Intergroup	–	–	(7)	–	(8)	–	(14)	–
	1,106	946	1,341	1,122	1,609	1,349	1,880	1,531
Disposals[1]	157	196	154	226	123	192	144	190
	1,263	1,142	1,495	1,348	1,732	1,541	2,024	1,721
EBITDA[2]								
Legal & Regulatory	103	90	188	179	195	176	289	264
Financial	72	56	75	70	80	78	121	85
Learning	(9)	(21)	35	7	186	141	146	121
Scientific & Healthcare	26	20	39	28	32	28	75	63
Corporate and other	(28)	(25)	(37)	(30)	(42)	(23)	(34)	(17)
	164	120	300	254	451	400	597	516
Disposals[1]	–	6	11	39	(1)	32	12	40
	164	126	311	293	450	432	609	556
Operating profit (loss)								
Legal & Regulatory	71	55	153	152	164	144	259	230
Financial	47	35	48	45	52	52	83	62
Learning	(29)	(38)	12	(12)	140	111	110	88
Scientific & Healthcare	19	14	31	23	26	17	70	58
Corporate and other	(28)	(25)	(37)	(30)	(42)	(23)	(34)	(17)
	80	41	207	178	340	301	488	421
Disposals[1]	(8)	(2)	7	31	(6)	21	10	30
	72	39	214	209	334	322	498	451
Earnings (loss) attributable to common shares								
– from continuing operations	(42)	(90)	74	56	168	179	371	264
– from discontinued operations	20	18	30	30	503	33	99	42
	(22)	(72)	104	86	671	212	470	306
Earnings per common share[3]								
– from continuing operations	$ (0.07)	$ (0.15)	$ 0.12	$ 0.09	$ 0.27	$ 0.29	$ 0.59	$ 0.43
– from discontinued operations	$ 0.03	$ 0.03	$ 0.05	$ 0.05	$ 0.81	$ 0.05	$ 0.16	$ 0.06
	$ (0.04)	$ (0.12)	$ 0.17	$ 0.14	$ 1.08	$ 0.34	$ 0.75	$ 0.49
Earnings from continuing operations as above	(42)	(90)	74	56	168	179	371	264
Add back (deduct):								
Restructuring costs, net (gains) losses on disposals of businesses and investments, and Year 2000 costs, net of tax	(4)	19	(18)	23	4	(13)	20	23
One-time tax benefits	–	–	–	–	–	–	(105)	–
Adjusted earnings	(46)	(71)	56	79	172	166	286	287
Adjusted earnings per common share	$ (0.07)	$ (0.12)	$ 0.09	$ 0.13	$ 0.28	$ 0.27	$ 0.46	$ 0.46

1 Disposals include the results of businesses sold or held for sale.

2 Before amortization, restructuring charges and Year 2000 costs.

3 Per common share amounts for the quarter are computed independently and, due to the computation formula, the sum of the quarters may not equal the year-to-date period.

Directors, Senior Management and Officers

Board of Directors

Kenneth R. Thomson
Chairman
The Thomson Corporation

W. Geoffrey Beattie
Deputy Chairman
The Thomson Corporation
President
The Woodbridge
Company Limited

Richard J. Harrington
President &
Chief Executive Officer
The Thomson Corporation

Ron D. Barbaro
Chairman &
Chief Executive Officer
Ontario Lottery Corporation
Ontario Casino Corporation

Robert D. Daleo
Chief Financial Officer
The Thomson Corporation

Steven A. Denning
Managing Partner
General Atlantic Partners, LLC

John F. Fraser
Chairman
Air Canada

V. Maureen Kempston Darkes
President & General Manager
General Motors
of Canada Limited

Roger L. Martin
Dean of the Joseph L. Rotman
School of Management
University of Toronto

Vance K. Opperman
President &
Chief Executive Officer
Key Investments, Inc.

David H. Shaffer
Chief Operating Officer
The Thomson Corporation

David K.R. Thomson
Deputy Chairman
The Woodbridge
Company Limited

Peter J. Thomson
Deputy Chairman
The Woodbridge
Company Limited

Richard M. Thomson
Corporate Director

John A. Tory
President
Thomson Investments Limited

Senior Management

Richard J. Harrington
President &
Chief Executive Officer

David H. Shaffer
Executive Vice President
Chief Operating Officer

Robert D. Daleo
Executive Vice President
Chief Financial Officer

Robert S. Christie
Executive Vice President
President &
Chief Executive Officer
Learning

Brian H. Hall
Executive Vice President
President &
Chief Executive Officer
Legal & Regulatory

Ronald H. Schlosser
Executive Vice President
President &
Chief Executive Officer
Scientific & Healthcare

Patrick J. Tierney
Executive Vice President
President &
Chief Executive Officer
Financial

Other Officers

David W. Binet
Secretary to the
Board of Directors

Michael S. Harris
Senior Vice President
General Counsel & Secretary

David J. Hulland
Senior Vice President
Finance

Martin B. Jones
Vice President
Group Treasurer

John Kechejian
Vice President
Investor Relations

Alan M. Lewis
Treasurer

Janey M. Loyd
Vice President
Communications

John J. Raffaeli, Jr.
Senior Vice President
Human Resources

James J. Spach
Senior Vice President
Organizational Development

Joseph J.G.M. Vermeer
Senior Vice President
Director of Taxes

Linda J. Walker
Controller

Corporate Information

Incorporation
The Thomson Corporation was incorporated under the laws of Ontario, Canada on December 28, 1977.

Capital Stock
The capital stock of Thomson consists of non-voting preference shares and voting common shares.

Shares outstanding as of December 31, 2000:

Common:	625,764,085
Series II preferred:	6,000,000
Series V preferred:	18,000,000

Major shareholder: The Thomson family (approximately 73% of common shares).

Listing of Capital Stock
Common shares listed on:
- The Toronto Stock Exchange (ticker symbol TOC)
- The London Stock Exchange

Preference shares listed on:
- The Toronto Stock Exchange

Financial Calendar
Year end: December 31.
Annual report: mailed April.
Quarterly reports: mailed May/August/November to shareholders who have elected to receive them by completing the form that accompanies the annual meeting proxy material.

Common Share Dividends
At the discretion of the directors. Paid on March 15/June 15/ September 15/December 15 or on the first business day thereafter. Declared in US dollars but can be paid in Canadian dollars at the holder's option, or in pounds sterling to holders of related common shares of The Thomson Corporation PLC (see also note 13, page 55). Further information available from the registrars.

Annual Meeting
Thursday, May 17, 2001, 12:00 noon. Roy Thomson Hall, 60 Simcoe Street, Toronto, Ontario, Canada.

Dividend Reinvestment Plan
Thomson has a dividend reinvestment plan under which common shareholders resident in Canada and the UK may elect to have cash dividends reinvested in common shares. Further information available from the registrars.

Corporate Governance
A statement of the Company's policy with respect to corporate governance is included in the information circular enclosed with the annual report mailed to shareholders.

Registered Office
Suite 2706, Box 24
Toronto Dominion Bank Tower
Toronto-Dominion Centre
Toronto, Ontario
M5K 1A1 Canada
Tel: 416-360-8700

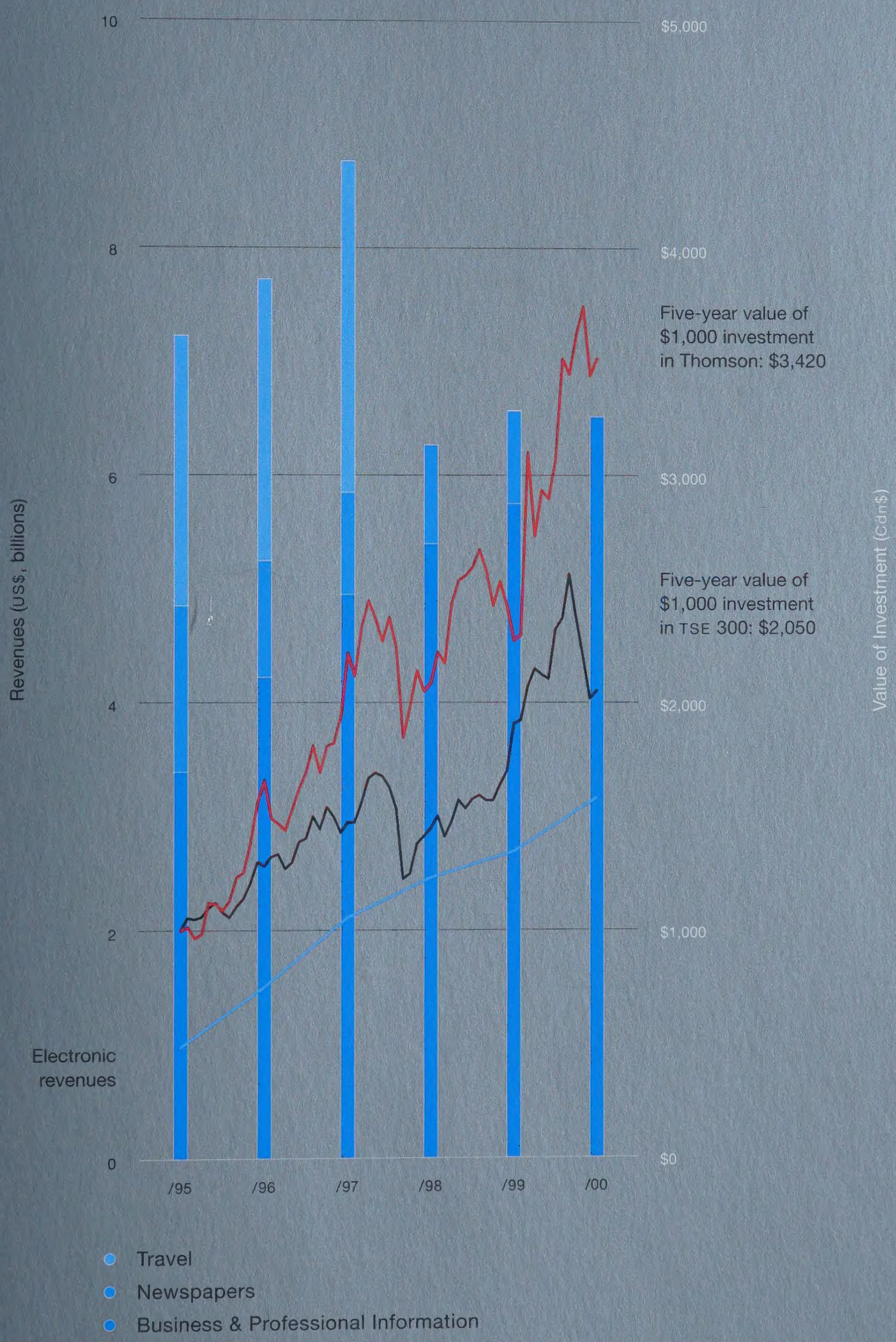
Principal Registrar
Computershare Trust
Company of Canada
100 University Avenue, 8th floor
Toronto, Ontario
M5J 2Y1 Canada
Tel: 1-800-663-9097

Branch Registrar
Capita IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom
Tel: 44.20.8650.4866

Auditors
PricewaterhouseCoopers LLP
Suite 3000, Box 82
Royal Trust Tower
Toronto-Dominion Centre
Toronto, Ontario
M5K 1G8 Canada

Further Information
Please refer to www.thomson.com for corporate and management news. The Thomson Web site gives access to over 100 other Web sites for more detailed information on individual Thomson businesses, products and services. For investor relations inquiries contact John Kechejian, vice president, Investor Relations at 203-328-9470 or john.kechejian@thomson.com

Evolution of Thomson to an e-Information Business, 1995 to 2000 (unaudited)



Interbrand Tudhope, Toronto Printed in Canada

The Thomson Corporation
Toronto Dominion Bank Tower 66 Wellington Street West, Toronto, ON, Canada M5K 1A1 tel 416-360-8700 fax 416-360-8812
Metro Center One Station Place, Stamford, Connecticut, USA 06902 tel 203-328-9400 fax 203-328-8398
The Quadrangle 180 Wardour Street, London, UK W1A 4YG tel 20.7437.9787 fax 20.7734.0561

www.thomson.com